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국제학석사학위논문

**Improving EU Cohesion Policy:  
Addressing Regional Imbalances in European Regions with a  
Place-based Approach**

유럽연합 결속정속정책 개선:  
장소기반 접근방식으로 살펴본 유럽의 지역 불균형

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**Seoul National University**

**Seoul, Republic of Korea**

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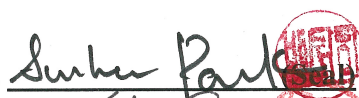
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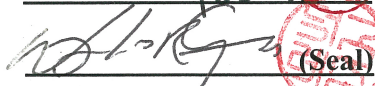
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## **Abstract**

The purpose of this research is to shed light on the impact of EU Cohesion Policy on European regions. The examination of the regional imbalances and the impact of the Cohesion Policy in Europe reveal that, counter to the policy's initial goal of creating convergence, divergence in regional developmental levels has been on the rise. It appears that it is especially difficult to catch up for regions already lagging behind, widening the gap between the European core regions and the periphery. Reasons for why Cohesion Policy had a less positive, or even negative, impact on regional development, especially in the newer member states, are discussed. I draw on agglomeration-, knowledge-, information- and technological- change theories to explain the widening gap between the European core and periphery to emphasize the importance of a place-based approach and partnership principle included in the Cohesion Policy, for the tapping of underutilized, localized potential within European regions. The place-based approach within the Cohesion Policy has emerged as a mediating factor facilitating more long-term, sustainable development processes tailored to specific territorial characteristics, focusing on supporting endogenous development and attracting capital and firms, and helping regions to create competitive advantages.

**Key words:** Cohesion policy, place-based approach, territorial capital, partnership principle, regional systems of innovation

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## 1. Introduction

*'The European Union is the duck-billed platypus of the political world: a curious-looking animal that defies simple categorization. Some people think it resembles a bird, other a reptile or a mammal. Similarly, everyone interprets the EU according to their own preconceptions rather than seeing it for the singular institution it is.'*

Wade (2003:635)

### ➤ 1.1. Background and Motivation

The aftermath of the Euro-crisis (2009-ongoing) in Europe requires actions to be undertaken to create and exploit regional advantages, in order to stop the increase in regional disparities which will, in addition to increasing economic difficulties, impact on the EU's political legitimacy negatively. Should European Union regional policy continue to fail to address the increase in disparities, then the European Union's sustainability might be in danger (Barca et al., 2012).

I argue that it is necessary to apply an interdisciplinary approach to devising regional policy in Europe. By crosscutting across a number of academic fields, the emphasis of the importance of the 'local' when devising European Union regional policy is highlighted. Cohesion Policy needs to address the individual needs of specific regions. In order to enhance, or create, development in regions lagging behind, Cohesion Policy needs to be viewed from an interdisciplinary point of view to limit the negative and unintended effects of a Union-wide uniformly applicable policy. European Union Regional Policy, called Cohesion Policy, is an investment policy supporting the creation of jobs, competitiveness, economic growth, and improvement of quality of life and sustainable development. Further, it is an expression of the European Union's solidarity with its less developed members and regions, leading to a concentration of funds on these areas in which they can create the highest impact. The goal of regional policy in Europe is to

achieve a reduction of economic, social, and territorial disparities. However, while it is concluded by a number of scholars (Barca et al., 2012; Sarmiento-Mirwaldt, 2013) that Cohesion Policy has a positive impact on convergence across the European Union, disparities within countries have increased. The increase in regional disparities between and within Europe's regions appears to be evidence of a lack of success of Cohesion Policy. In order to create a more effective Cohesion Policy, the last Cohesion-programming period, which ran from 2007-2013, needs to be scrutinized and ways to create disparity-reducing regional policies need to be uncovered. If the benefits of European integration go first and foremost to a handful of countries, while many other regions lose out, the political legitimacy of the European Union might wane (Barca et al. (2012). It can be concluded that a variety of inappropriate and infeasible policy approaches had been included in the last programming periods which, while favoring the advanced regions, contributed to the increase in regional divergences, as opposed to achieving the objective of creating convergence. To address the issue of increasing disparities within the EU, I argue, based on the literature review, that a spatially neutral approach to Cohesion Policy is insufficient and employing the place-based approach strengthened by a binding partnership principle holds the most potential to enhance development within the European Union.

## ➤ 1.2. Purpose and Terminology

An example for the potential impact the place-based approach to regional development could have involves externalities (Hahn, 2011). The building of a highway can improve the access of a region to the rest of the Union. Travel time can be reduced, while at the same time firms profit from better accessibility of the region, providing better access to the internal market, and exposing them to greater competition. This still confirms to a spatially neutral approach; however the highway has to be put somewhere and the externalities of such an investment will have a greater impact in some places than in others. Such linkages, or externalities, are ignored in sectorial and spatially blind

policies, which have dominated regional policies within the European Union for a long time (Barca et al., 2012). Starting with the Barca Report (2009) an integrated and place-based approach has been promoted and it was called for the inclusion of this approach into the framework of Cohesion Policy. This approach is defined as a long-term strategy aimed at tackling persistent underutilization of potential, and reducing persistent social exclusion in specific places through external interventions and multilevel governance. The importance of location for regional development is highlighted within this approach, since it is only at the lower levels of geography that the strengths and weaknesses of an economy become apparent (Hahn, 2011). In accordance with the concept of territorial capital, the place-based approach states that development is to be promoted in all regions by exploiting localized assets that constitute the competitive potential of a given local territory (Camagni and Capello (2010:10). This is the premise of Regional Innovation Systems as opposed to National Innovation Systems. 'Regions' in the context of this paper corresponds with the nomenclature of territorial units for statistics (NUTS) which is a hierarchical system for dividing up the economic territory of the EU by EUROSTAT for the purpose of:

- Collection, development and harmonization of EU regional statistics
- Socio-economic analysis of the regions
- Framing of Community regional policies

There exist three levels of NUTS, however, within this paper only NUTS level 2 are of relevance. Therefore, the expressions of 'regional' and 'region' within this paper stand synonymous to NUTS level 2.

- NUTS 1: major socio-economic regions
- NUTS 2: basic regions for the application of regional policies
- NUTS 3: small regions for specific purposes

Present within the Regional Innovation Systems approach to innovation is the acknowledgment that innovation is carried out through a network of various actors underpinned by an institutional framework. Regional innovation systems are understood in the context of creating a policy framework aiming at a systemic promotion of localized learning processes in order to secure the innovativeness and competitive advantages of regions (Cooke et al., 2004). Regions are seen as important bases of economic cooperation and governance at the meso-level between the national and the local (cluster of firms). The region is increasingly the level at which innovators, local clusters and cross-fertilizing effects of research institutions take place. Furthermore Regional Innovation Systems approach is a tool for policy-makers to systemically enhance localized learning processes to secure regional innovativeness in practice (Asheim et al., 2003) within a place-based policy, public interventions rely on local knowledge and are verifiable and submitted to scrutiny, while taking linkages among places into account. A place-based policy requires strong regional institutions and administrative capacities, a problem which is being addressed with the inclusion of the Partnership Principle within the framework of Cohesion Policy (Cooke et al., 2004). Partnership agreements are based on the Partnership Principle, which comprises of a vertical cooperation between actors at different levels of government, emanating from the EU institution down to the national and subnational levels, and includes a horizontal axis comprised of a variety of public and non-state actors in all stages of the Cohesion Policy. The term *actors* in this paper refers to regional, local, and urban and other public authorities, such as trade unions, employers, non-governmental organizations, and bodies responsible for promoting social inclusion. This will lead to constructive dialogues between the European Commission and the national and subnational public authorities and thereby create opportunities to improve administrative capacity and institutions. Innovation, according to the Barca Report (2009), is a source of productivity growth and economic efficiency, and the definition of innovation, as it is used in the context of Cohesion Policy, includes those changes that have the direct effect of inventing general purpose technologies or bringing about their application in a specific domain (business activities, healthcare, environment, culture, and

so on). There are disparities in innovation capacities within European Regions, leading to a core-periphery innovation polarization, further deepening the gap between lagging regions and advanced ones. Cooke and Leydesdorff (2006) include the definition of innovation as 'the commercialization of new knowledge'. (Cooke and Leydesdorff, 2006:2) I want to emphasize the focus on location and knowledge, arguing that 'place matters' in the context of devising Cohesion Policy. To support this argument I will draw on concepts such as the Regional Innovation Systems approach, put forward by scholars such as Cooke and Leydesdorff, focusing on localized invention- and learning patterns, stating that innovation often occurs in response to specific local problems. This emphasizes the need to integrate local actors into the drafting of a regional policy, which will have growth outcomes by addressing specific developmental problems, which might be unique to the region. The main purpose of this is to fill a gap in the literature through building up a focus on localized knowledge creation and knowledge diffusion in order to explain the lack of impact of the last Cohesion Policy programming period on the lagging regions. The application of the place-based approach might give individual regions the opportunity to uncover their competitive advantage, leading to self-sustaining development of the region. To further the argument, promoting a localized approach which aims at uncovering competitive advantages of lagging regions, will include a rendering of the concepts of 'shallow' Europeanization, and 'thin'- learning (Bache, 2008). Europeanization (Graziano and Vink, 2007) and refers to the influence of EU policies on the EU member states' policy processes, institutions, and politics. 'Shallow' Europeanization denotes that only superficial changes without serious modification of pre-existing modes of governance are taking place. 'Thin' learning takes place when EU-policies are implemented without making any fundamental change to the 'established way of doing things' within member states. This speaks to the notion of increasing common bonds, since the expectation of solidarity is necessary for the sustainability of the European Union.

### ➤ 1.3. Structure of the Study

The literature review will be introduced and related to the argument put forward, which is that ‘place matters’ in the drafting of successful European Union Cohesion Policy, and that a place-based approach is needed in order to address the continuously increasing regional disparities within the European Union. After the literature review the research questions will be given and discussed within the methodological part of the paper. The methodological framework of the paper will entail a rendering of the most common economic growth theories and how they can be used to explain economic growth and the increase of disparities taking place across Europe. The factors and determinants of growth will be outlined, introducing vital concepts to the creation and utilization of local knowledge and assets that are included in the place-based approach to regional development within the European Union. In order to achieve cohesion utilizing the place-based approach, interaction, and compliance of actors on the regional, national and the European level is necessary. Are the member states undertaking necessary steps to improve the involvement of diverse regional and subnational actors into the consultation processes? An empirical analysis of three Central European regions conducted at the end of the programming period of 2007-2013 will shed some light on the state of ‘Europeanization’ and its impact on the level of involvement of regional partners when devising national frameworks for cohesion. The result of the analysis will show that the binding regulation regarding the partnership principle is of vital importance, in order to enable the new Cohesion Policy utilizing the place-based approach, to jump-start regional development while over time the partnership-practices are assumed to become internalized and create synergies and spill-over effects. At the end of the paper, the findings of the analysis and the conclusions based on the literature review will be outlined and the research questions thereby addressed.

## 2. Literature Review

While it has been observed by various scholars such as Barca (2009), Sarmiento-Mirwaldt (2013), and Barca, McCann and Rodriguez-Pose (2012) that the EU has experienced processes of cross-national convergence, with countries in the original periphery of the Union catching up to the core countries, divergence is taking place between regions within countries, a process characterized by a rise in relative incomes in the prosperous regions as compared to the laggard regions. Embedded in the discourse of Cohesion Policy of the last two decades are concepts and ideas about the tradeoffs between efficiency and equity, trying to find ways to maximize overall growth while achieving convergence in outcomes and productivity across the European Union member states (Farole et al., 2009). It has been argued within one of the most influential reports on the efficiency of Cohesion Policy, namely the Barca Report of 2009, that the focus of Cohesion Policy needs to be reset and take the needs, specific challenges, and opportunities present in individual regions into account in order to help mitigate a further increase in regional disparities. I take up the argument by Barca (An Agenda for a Reformed Cohesion Policy: A Place-based Approach to Meeting European Union Challenges and Expectations, 2009) and other scholars reviewed in the literature review, that the European Union's unique developmental challenge needs to be addressed following a place-based approach to regional development, in which the endogenous regional strengths of regions will be exploited in order to achieve a balanced development of European regions. Within this approach, balanced development of all European regions is promoted by awarding peripheral regions the chance to discover or create their individual competitive advantage by exploiting their territorial capital. Territorial capital describes the localized assets- natural, human, artificial, organizational, relational, and cognitive – that constitute the competitive potential of an individual region. The successful implementation of this approach to development is dependent on partnerships between local elites and actors, and external factors, such as European Union institutions and their affiliates (Sarmiento-Mirwaldt, 2013). Place-based approach to regional

development, as opposed to the spatially- blind approach, recognizes the need for intervention based on partnerships between different levels of governance, both as a means of institution-building and also of identifying and building on local knowledge (Barca et al. 2012).

➤ 2.1. What sort of cohesion are we looking to promote?

*Territorial cohesion is about ensuring the harmonious development of all places and about making sure that their citizens are able to make the most of inherent features of these territories. As such, it is a means of transforming diversity into an asset that contributes to sustainable development of the entire EU.*

CEC (2008; 4)

There exist different definitions of cohesion, and therefore different interpretations of cohesion policy and the outcomes it should promote. It is important to narrow down what 'kind' of cohesion the Union sets out to achieve. The involvement of various actors in the creation and the implementation of cohesion policy is complex in its own right, however, differing definitions of the goal to be achieved by such a policy, might lead to an unsuccessful cohesion policy and therefore result in not being beneficial for regional development, or for the overall development of the Union. The European Union has experienced a number of shifts within the discourse of territorial development policies, but greater focus on territorial cohesion as a European concern to be addressed by adequate policies emerged in the late 1980s in the context of a spatial planning debate going on in Europe (Sarmiento-Mirwaldt, 2013). It became evident that Europe was divided into a core and a periphery, with the gap in between them becoming more and more pronounced. Faludi and Waterhout (2002) defined the core region of the European Union as a 'pentagon' that spans between the major European urban centers of London, Paris, Milan, Munich, and Hamburg. This growth in the gap between more prosperous regions and poorer ones was furthermore negatively impacted upon by the



implementation of a number of European policies, namely the competition and transport policies, which ended up having a profound impact on territorial cohesion. Certain regions have better capabilities to cope with and implement Union-wide policies, such as competition and trade policies, while others lack the institutional framework and resources to implement them correctly, leading to the unintended deepening of the division between rich, technological well-endowed regions, and poorer regions (Liagouras, 2006). The Second Cohesion Report (2001) published by the European Commission reported major disparities both within and between countries and regions. It stated that not only did the newer member states differ from the well-established members regarding demographic development, innovation, and GDP, but also within the wealthy countries, making up the core, pockets of poverty and deprivation could be found. The report took into account that spatial imbalances could also be perceived in terms of geography and not just in terms of GDP per capita, pointing out the difficulties mountainous-, island-, and border-regions face. In order to achieve cohesion within the European Union ‘cohesion’ needs to be defined. Sarmiento-Mirwaldt (2013) mentions two competing interpretations of ‘cohesion’ within the European Union and introduces the notion of territorial capital into the context of the EU, which can be seen as a middle ground enabling different actors to contribute to cohesion policy, regardless of their preference for efficiency- or solidarity-driven cohesion. First, there is the interpretation of cohesion based on a commitment to balanced development. This has been labeled ‘spatial justice’ by Doucet (2006) or ‘solidarity based on geography’ by Jouen (2008:2). Secondly, cohesion is defined as a form of investment, focusing more on efficiency and economic growth, without addressing regional imbalances or other social aspects. The resulting conflict between efficiency and solidarity is addressed by the Commission within the concept of territorial capital, or in other words, with the place-based approach to regional development, in which endogenous regional strength should be exploited in order to achieve a balanced development of European regions. The Lisbon Treaty, which came into effect in 2009, not only strengthened the principle of subsidiarity mentioned in the section above, but also established the so-called Lisbon-goals of competitiveness,

innovation and full employment (CEC, 2004a). The argument is that research and innovation capacity should be strengthened in order to achieve territorial cohesion<sup>1</sup>. Territorial capital provides an opportunity to overcome different actor's viewpoints of cohesion. Taking the notion of territorial capital into account, it has been advocated by the Dutch and Luxembourg presidency over the Council of the European Union that Cohesion Policy should focus on different territories' untapped development potential, strengthening regional connectivity and integration, and promoting coherence of existing European Union and national policies with a regional impact. This implies again that regional- and local actors need to be involved in the process of Cohesion Policy programming in order to mitigate imperfect information about a specific location at the level of the European institutions. To achieve a decrease in regional divergence within the Union, it is clear that territorial cohesion is important, however, within the framework of Cohesion Policy, territorial cohesion also needs to be more closely defined, in order to understand what it would or should mean in practice.

Within Sarmiento-Mirwaldt (2013; 6) five inter-related interpretations of territorial cohesion, explaining how it should be defined and what it should achieve will be named here, to further the understanding of what it implies for the drafting of regional development policies at the European level.

1. *Polycentric development* which involves the dispersion and de-concentration of economic activity. In the context of the EU this implies the creation of a number of dynamic zones of global economic integration, which should be well distributed throughout the territory of the Union. There is, however, no real agreement on which spatial scale this polycentric development should be achieved and it remains relatively fuzzy and undefined within the European Union context. Furthermore, it appears quite obvious that such centers would be situated within well-off regions.

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<sup>1</sup> Territorial cohesion here is defined as 'balanced distribution of human activities across the union'. (CEC, 2004b)

2. *Accessibility* points toward the fact that citizens of Europe have the desire to have equal access to services and knowledge, regardless of the region in which they live in. This leads to a connection of the accessibility-definition of territorial cohesion with the polycentric development-definition, since transport and communication nodes from an urban center to the surrounding rural regions are supposed to be actively strengthened, creating urban-rural linkages.
3. *Balanced development*, seen as the traditional approach to cohesion policy, focuses on reducing socio-economic disparities by helping the lagging regions catch up to the advanced ones. It comprises mainly of market correction- and redistributive elements emphasizing spatial justice and solidarity among European Union member states.
4. *Regions with specific geographical features*, for instance border regions or mountainous regions, which face a different set of challenges than, for instance, core regions. With border regions one has to be careful, since intra-EU border regions tend to be quite prosperous and benefit from the increase in ease of cross-border trade within the EU. This is different for the Union's external border regions, which face more difficult challenges. In order to help regions faced with specific geographical difficulties, they should receive assistance to help them exploit their specific territorial development potentials in order to overcome these challenges. This however, is very much contested by a number of member states, which are not fond of the idea to include geographic features as a factor of deciding where funds go.

These above mentioned interpretations of territorial cohesion do overlap; however, they cannot hide the fact that when choosing policies, there is a tradeoff between policies aimed at a more solidarity-oriented territorial cohesion and policies trying to enhance growth and efficiency. As will be mentioned in more detail later on, one of the biggest concerns is that cohesion policy, as a targeted regional policy, might actually turn out to be harmful to overall growth since it interferes with the market forces and also introduces various sources of cohesion policy failures such as rent-seeking and crowding out of

national funding, which can only be avoided to a certain degree. The fifth interpretation of territorial cohesion to be achieved is the above mentioned concept of *territorial capital*, which is bridging solidarity- and efficiency-oriented cohesion policy goals.

5. Development is to be promoted in all regions by exploiting their territorial capital, in other words ‘localized assets- natural, human, artificial, organizational, relational, and cognitive – that constitute the competitive potential of a given territory’ (Barca et al., 2012).

This provides a connection to the discussion of a spatially-blind regional development approach versus a place-based approach, which will follow shortly. The Barca Report (2009) states that territorial capital can be exploited through the involvement of local experts and stakeholders, who will help in the creation of functional inter-linkages between different places. Territorial capital recognizes the importance of socio-cultural aspects in constituting development factors. It makes use of concepts such as local milieu and innovative milieu. Local milieu is comprised of four factors. (Servillo et al., 2011: 356)

1. A group of actors (firms, institutions), relatively autonomous in terms of decision making and strategy formulation.
2. A specific set of material (firms, infrastructure) and immaterial elements (knowledge, know-how).
3. Institutional elements (authorities, legal framework) and interaction capacity between local actors based on cooperation
4. Internal self-regulating dynamics and the ability of actors to modify their behavior and find new solutions as their competitive environment changes.

These above mentioned factors make up the resource endowment of a territory or place. In addition to the local milieu, the innovative milieu, which is characterized by a common understanding based on common behavioral practices, and a technical culture linked to a specific type of economic activity, is needed to establish or sustain the innovative process (Servillo et al., 2011). The need to elaborate on differing interpretations and definition of

cohesion and territorial cohesion exists, since in an entity such as the European Union there are still many divergent views on which policies and objectives should be dealt with at a national or at the European level (Sarmiento-Mirwaldt, 2013). While a number of member states, including the Czech Republic, Hungary, and Luxembourg, seemed to favor the perspective of cohesion by creating polycentric development within Europe, other states favored the focus on accessibility, such as Bulgaria, Cyprus, Finland, France, and Greece. In countries with a strong spatial planning tradition, such as Austria and Germany, there was a move toward interpreting cohesion as “helping out the poorer regions,” and there was a reluctance to have cohesion policy act as a spatial planning concept, which would interfere with the established spatial planning tradition. Further, it appeared to be obvious that re-balancing regional imbalances might stand in direct conflict with the objective of stimulating growth and competitiveness overall. With one cohesion policy, but many differing views on what this one policy should address, problems might arise. Territorial capital, and a place-based approach incorporating notions of local milieu and localized learning and knowledge accumulation, is needed to bridge equity- and efficiency-based conceptions of cohesion. This will help facilitate consensus and maintain the political legitimacy on which the Union depends.

➤ 2.2. Does ‘place’ matter when devising Cohesion Policy?

*The starting point of place-based development policy is the idea that most of the knowledge needed to fully exploit the growth potential of a place and to design tailor-made institutions and investments is not readily available- whether held by state, large corporations or local agents- and must be produced anew through participatory and deliberative process involving all local and external actors.*

Barca et al. (2012:147)

The debate between space-neutral and place-based-development approaches deployed in regional policy, which in the European Union’s case is called Cohesion policy, needs to

be addressed. Which approach is better suited in order to achieve the desired outcomes? Enhancing efficiency and social inclusion is an integral part of not just policy and politics within the Union, but it is defined and anchored in the very heart of the EU in the form of norms, values and beliefs laid out and formalized in the treaties of the Union, based on which the European founding fathers decided to set out on the journey to create “one” Europe. Space neutrality and a purely growth oriented definition of cohesion policy is leading to a deeper divide within and between the countries of Europe. If the benefits of European integration go first and foremost to a handful of countries, while many other regions lose out, the political legitimacy of the European Union might wane. A ‘winner takes all outcome’ is not consistent with the fundamental philosophical basis of the Union (Barca et al. 2012). Europe represents a unique development challenge due to its institutional, legal, geographical, and political heterogeneity leading to the notion that within such a complex and diverse region the best approach to development would be to make more use of the local and regional institutions in order to tap into regional advantages. A need that was realized in the years of the Cohesion programming period of 2007-2013 and emphasized within the Lisbon Treaty’s strengthening of the principle of subsidiarity. Contrary to space neutral approaches mostly put forward by the World Bank within the 2009 World Development Report, the Barca Report (2009) concludes that the relationship between geography and institutions matters for development. Development policies in the past and to degree now as well, have been instruments for the provision of infrastructure such as roads, railways, sanitation, etc.

This state-aid based industrialization has been very popular; however an over-emphasis on top-down, supply-side, ‘one-size-fits-all’ quick fixes eventually resulted in unbalanced policies, only relevant to the formal sector, and ultimately incapable of delivering sustainable development.

Barca et al. (2012: 137)

In recent years, a number of influential reports rethinking developmental strategies have been published, with the 2009 World Bank Development Report promoting space neutrality in development. Other reports however, take the opposite position, claiming that space matters and shapes the potential for development not only of territories, but, through externalities, of the individuals who live in them, were published as well (Barca et al., 2012; Barca Report, 2009; Dabrowski, 2011). Coming back to space neutrality as laid out in the World Bank's report and drawing on the new economic geography literature (Krugman, 1991), the advantages of agglomeration effects of large cities are emphasized that development and growth will be unbalanced. Further attempts to spread economic activity will not only not reduce poverty; they will also undermine growth and prosperity. In the 1950s neoclassical theories stating that with growth disparities would decrease were dominant. These theories were later overtaken by other schools of thought, such as the endogenous growth theory and new economic geography, concluding that growth would increase disparities. Space neutral, or spatially blind, policies are seen as 'people-based' policies, representing the best approach to deliver an improvement in people's lives and to guarantee equal access to opportunities, regardless of where they live (Barca et al., 2012:140). Intervention in development should not be bound to a location, but should make the movement of factors, especially labor, more attractive in order to encourage those factors to relocate where they are most productive. Gill (2011) points out that the most productive locations tend to be urban centers and that agglomeration therefore would improve the overall economic performance (World Bank Report, 2009; Sapir Report, 2004). Even though the Four Freedoms, including the freedom of movement of people, capital, goods and services, are provided in the EU, factor mobility, especially labor mobility is by no means perfect (Boldrin and Canova, 2001). Barca et al., (2012) point out that a lack of institution-building capacity and a lack of sense of community by the state, may undermine the assumption that the 'state knows best' and therefore also limit the economic returns of spatial top-down development-intervention further endangering the legitimacy of the European Union. In contrast to the spatially blind approach to development, the place-based approach to regional

development in the European Union put forward by the Barca report (2009) and to a lesser degree in an OECD report (2009a) puts emphasis on the geographical context, including social, cultural, and institutional characteristics, of development. By acknowledging the limits of the central state, meaning the EU Commission alone, to design good local development policies, place-based strategies recognize the need for intervention based on partnerships between different levels of governance, both as a means of institution-building and also of identifying and building on local knowledge (Pike et al., 2007). One of the main points in this approach is the focus on knowledge in policy interventions. Underdevelopment traps that limit the growth potential of regions or perpetuate social exclusion are the result of failure of local elites to act, and can only be tackled by new knowledge and ideas: the purpose of development policy is to promote the development of regions through the interaction of those local groups and the external elites involved in the policy (Barca et al., 2012:139). The report identifies the cause of underdevelopment to be a lack of capacity or willingness by the local elites, in combination with centrifugal agglomeration effects which occur due to policy intervention in other places (Barca et al. 2011:139). An interplay of exogenous policy action linked to endogenous changes need to be achieved, which means that exogenously general conditions must be set, by the Union's institutions or national institutions, which then will have to be followed through endogenously by the local actors. The place-based approach put forward within the OECD Report, titled Regions matter (2009b), stresses the individual characteristics of regions and their place specificity pointing out that growth opportunities do exist in every region and that policy intervention should be utilized to mobilize regional assets and exploit synergies. Development policy can be drafted when closely looking at the interactions between institutions, geography, and regions, which include a variety of cities of different sizes and also rural regions, which have the potential to contribute to economic growth by achieving high levels of productivity in the activities for which they are best-suited (OECD, 2011 a,b,c). Barca et al. (2012) conclude that the experience of now-developed countries must not be read off as the unique solution to long-term development issues and mega-urban regions are not



the only possible growth patterns. It is argued that spatially blind approaches confuse correlation with causality, limiting the ability to make a leap from the observation of spatial concentration of activity to that of space-neutral policy settings in all countries. The implications for these regional development approaches based on geography for the Union is that it needs to accommodate a wide variety of actors in terms of different nations, different cultures, different states of development and different ways of 'doing things'. Unlike in most now-developing countries, the institutional landscape, while being heterogeneous, is well established and capable in the EU-15, all of which had been members of the European Union by 1995, while at the same time the most recent additions to the Union, the EU-12 or with the accession of Croatia the EU-13, include less capable institutions, many of which were completely undermined during their time under socialist regimes, and are among themselves again very heterogeneous. Related to this issue, is the European Union's complex legal framework based on the legitimacy of policy. All member states pool aspects of their sovereignty, but not all countries do that to the same degree. Some members take part in the Schengen agreement, while others have opt-outs and only partially take part; the Economic and Monetary Union is made up of 17 members, and so on and so forth. It is therefore not an easy task for the Union to coordinate activities and to draft policies applicable to all regions. This highlights the possible positive impact of the place-based approach with its engagement of local elites and actors, capable of contributing information salient to the individual region's development and strategy for achieving such a development through the application of European Union Cohesion Policy. Regional development policies in any country operate within a particular institutional and governance context, and in the multi-country EU case, the complexity, and specificities of these are fundamental to the nature and the operation of the policy (Barca et al., 2012:144). The EU exhibits a high variation of urban structures and labor mobility patterns. While in many EU-12 countries economic growth benefited largely from the rural to urban migration processes, which are described in the World Bank Report (2009); however, the majority of the EU-15 labor mobility patterns have mostly followed an urban-to urban trend and their main competitive advantage lies

with their high degree of connectivity between small to medium-sized cities and their connectivity to the rural surroundings. It can be concluded that the European labor mobility hierarchy does not simply move from smaller, more specialized regions to bigger, more diverse regions. For instance London, a huge urban center, is in many ways more specialized than many smaller cities across the UK. European spatial factor adjustment processes (Barca et.al., 2012:144) vary across the regions resulting in very different structures of economic geography in Europe, leading to the conclusion that spatially blind, one-size-fits-all-urban expansion to enhance growth within Europe and in between its regions is not sufficient for the Union's purposes. European Cohesion Policy must respond to the institutional, legal, geographical, and political heterogeneity present in Europe. It will not be enough to simply encourage the growth of the biggest cities and existing agglomerations in the EU, but local and regional institutions need to utilize local knowledge and actors to find pathways for development in Europe and possibly create new, smaller, and localized clusters. To conclude, the place-based approach employs a definition of territorial cohesion as an opportunity to encourage the harmonious and sustainable development of all territories by building on their territorial characteristics and resources (Barca Report, 2009).

### ➤ 2.3. Which regions are the 'losers'?

Drawing on Petrakos and Topaloglou's (2006) work, focusing on the effects of economic geography and economic integration on the Union's external border regions, which are identified as the most vulnerable and least developed regions in Europe, a number of problems are highlighted. First of all the authors discuss, to which extent are these regions capable of participating in the process of integration? Did they evolve from barriers between two sovereign nations to bridges between them, or are they tunnels connecting the two sides without benefiting the border region through which it passes? The main issue addressed here is if the border regions are able to benefit from the cross-border transnational trade and investments, or do those regions lose out since they operate

as mere corridors for trade flows originating in other, more central regions? The problem there being that should the regions function as corridors and nothing else, they would contribute to a process of integration with a more polarized economic space which marginalizes borders and undermines spatial cohesion. It is, however, pointed out that there is a difference between border regions within the European Union, meaning border regions between core member states such as between Germany and Austria, and external border regions in the far West, such as some coastal regions in Portugal and most markedly, external borders of the Eastern new member states, for instance between Romania and its border regions facing Ukraine. Although there is the argument put forward by Ohmae (1990) that globalization has created a borderless world when discussing international relations, border effects remain significant (Petrakos and Topaloglou, 2006:156). This is mainly due to the existence of different nationalities, languages, and cultures represented within the nations bordering each other, which, in combination with economic costs remain obstacles to trade and interaction (Topaloglou, 2006). As mentioned above, within the European Union there are two distinct types of border regions. In most cases, border regions are arranged as a circle around the large national markets of a country. However, in the Union such a national border, remote to the national market may find itself within the core region of the Union and thereby at the center of cross-border and transnational trade, benefiting greatly from the integration effects. The eastward enlargement of the European Union has changed the geographical conditions of many border areas dramatically. The former border regions of the old EU have found themselves in the core, making them the central regions, and the external border regions have shifted eastwards, making them the peripheral regions. The central regions are better positioned to benefit from market access and market potential due to their location, and are identified to be the most developed regions within the EU. Outside of the European Union context the existence of closed borders usually implies a limitation in the geographical size of a market so that the demand from firms providing goods and services in this area falls below the critical size required for sustainable business operations (Cristaller, 1933). This then leads to a distortion in the urban system since

firms will be discouraged to locate in border regions (Hansen, 1977). Within a closed economy a city close to a border will only grow to a small size, since the border will limit its potential growth by distorting the market. In Europe, the single market and the abolishment of most barriers has led to a reduction of transaction costs and helped to increase the accessibility of markets on both sides of borders, making the regions more attractive for business activities. However, not all border regions are benefiting from this decrease in barriers to trade and interactions (Barca Report, 2009; Petrakos and Topaloglou, 2006). More advanced border regions will benefit from labor inflows, the expansion of exports and will be the origin of cross-border investment activity to a much greater degree than external border regions (Petrakos and Topaloglou, 2006:158).

Inequalities between European regions, in other words on the European level, appear to be decreasing, while at the same time disparities within the individual member states and their regions is on the rise, resulting in a convergence among EU countries that is offset by increasing divergences at lower levels of disaggregation.

Petrakos and Topaloglou, (2006:158)

Within Petrakos and Topaloglou (2006) a survey on EU's external border regions, the most vulnerable regions, was conducted to investigate the aspects of spatial dynamics in the development of the external border regions of the European Union, in contrast to the quite often very successful internal border regions, situated between core countries of the Union. Their analysis focuses on these cross border economic interactions, such as export, import, investment and classifies EU regions into different groups. Within the sample of countries analyzed it is found that neighboring countries exhibit strong trade relations with their neighbors, which can be explained by the lower transport costs and consumer preferences (Jackson and Petrakos, 2001).

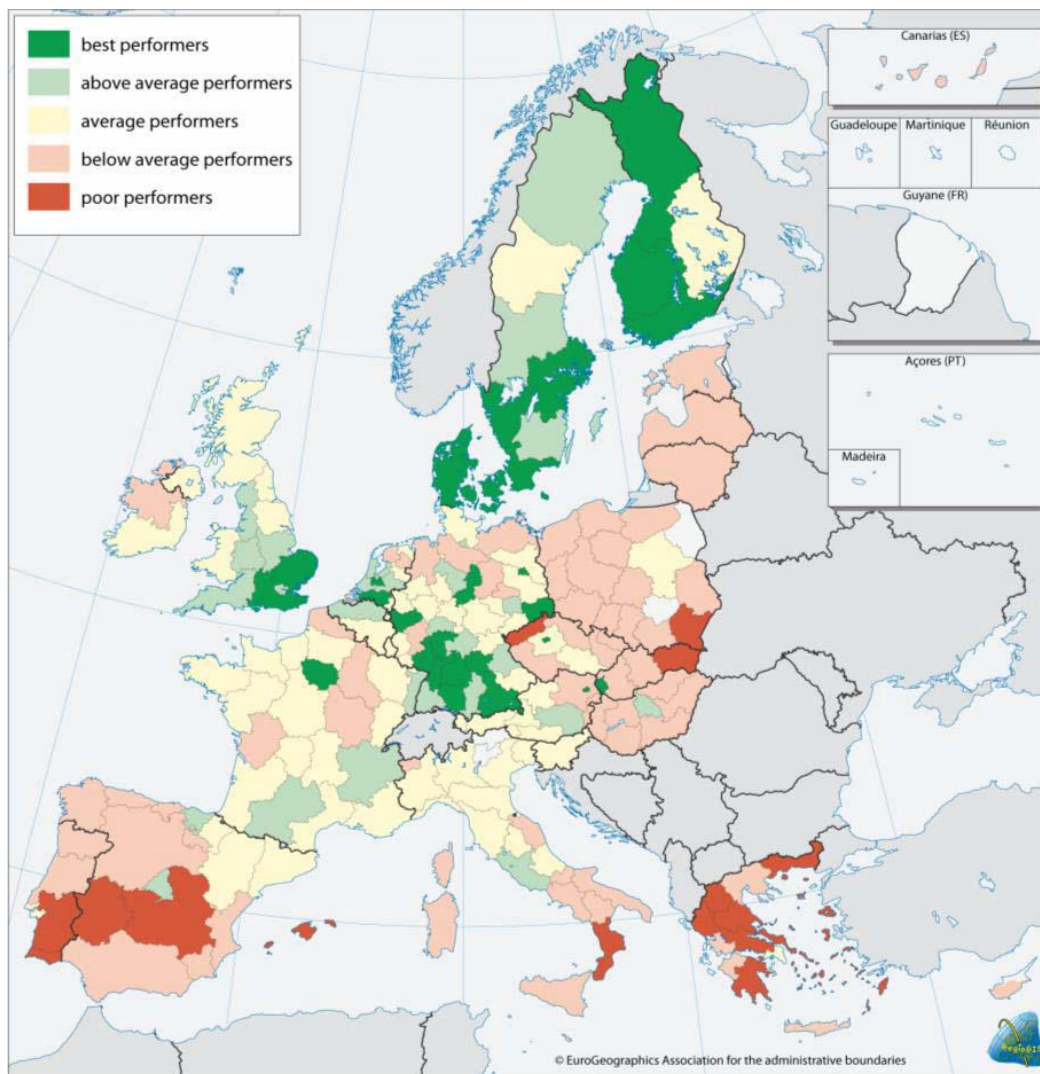
Further, it is observed that in most cases, the level of cross border exports and imports in external border regions with neighboring countries is lower than average, which is attributed to the weaker economic structure and the lower level of development of the

peripheral regions. Administrative capabilities, weak institutions, and problems in demographics hinder the border regions' growth, just as the meaningful absorption of Cohesion funds provided over the last programming regions of the European cohesion policy was lacking due to these kinds of regional issues. The trade and investment performance of border regions is affected by the institutional and geographical proximity to the EU structures and markets making the external border regions the automatic losers of the European economic integration process. Simply throwing funding at regions not capable of utilizing them will not help, but capable and willing local actors and elites must be mobilized to create an environment in which funding can take effect and be directed at the projects leading to the best growth outcomes.

➤ 2.4. Impact of knowledge and technological change on European periphery

*'Less research-intensive regions are by now well aware that science, applied to local resources, is the basis of much of their future potential for economic and social development.'*

Figure 1. Regional Disparities in Innovation, 2002-2003



Source, DG Regio

Liagouras (2006) points toward the unfavorable position the peripheral and other weaker regions European Union member states find themselves in. The Union compels them to replicate technology policies followed in advanced countries; however, these policies have, in most cases, proven themselves to be inappropriate for the peripheral countries and regions, because they do not properly accommodate their growth models and their

corresponding production structures. The Cohesion countries were required to follow objectives that mainly reflect the interest of research institutions and firms established in the prosperous regions. The problem associated with this, is that policy preoccupations and theoretical concepts produced in and for leading economies have little to do with the specific needs of peripheral countries and regions. Within the EU there is a focus on policies promoting high tech and EU best practices which Liagouras attributes to the Union ascribing to the dominant theoretical framework on technology and innovation, which underestimates the importance of business organization and broader economic structures within peripheral regions. There exists the trend to overestimate R&D-based technical change and an underestimation of the important role of business organization and production structures, which becomes relevant for the growth performance in laggard economies. Technology, just as Convergence, can be defined differently and it is important to know which kinds of technology policies are actually aiming at promoting technological change leading to economic growth within a specific region. The first and narrowest conception concerns R&D-based technology. Within the context of this narrow definition of technology, the interaction of the R&D department of a firm with other departments in the firm constitutes a sine qua non condition for technological innovation to succeed (Kline and Rosenberg, 1987). The second conception of technology refers to the totality of technical know-how that an economic unit, for example a firm, a region, or a country has at its disposal. This does not only concern knowledge derived from R&D departments, universities, research institutions, etc., but also the technical knowledge and skills of all the members within an economic unit. Third view of technology includes the totality of technical and organizational know-how of the economic units. The problems related to the creation of innovation within firms does not always depend on their ability to follow the technological advances of the time, but on their ability to change their established business organization to better exploit the potential of new technologies. Within the framework of the Barcelona agreement on Cohesion Policy, which was the predecessor of the Lisbon strategy, the EU adhered to a reduction of the notions of organization to technology to R&D. While the Barcelona strategy was in place, the trend

was to follow a technology trend based on promoting R&D investment. Its main goal was to raise EU R&D spending by three per cent of gross domestic product by 2010. This led to a representation of technological development as an autonomous force driving economic growth, and ignored the fact that technological evolution depends on the systemic features that form a model of development. This again comes back to the notion of place-based approach, realizing that location does matter and it does so in more than just one aspect. Social-, structural-, economic-, geographical factors all need to be included in the production of sustainable development within a region. Technology policy centered on R&D anticipating a firm to invest and participate in collaborative research before upgrading their business processes is expected to have no or very little economic yield (Liagouras, 2006:335). In the Central European countries it was shown that without the intensive technological effort at the enterprise level, that a high general level of education is insufficient for technological catching up (Liagouras, 2006:335). This appears to have created a vicious circle of a European Union policy targeting technology, thereby aiming at enhancing development, which was not applicable in a number of regions and thereby exacerbating the problem. It is impertinent for Cohesion Policy to be drafted according to the place-based approach, taking territorial capital and localized knowledge into consideration. In doing so the structural components of a specific region's economy can be taken into consideration and an approach to development, including applicable technology policies can be drafted to address the region's needs.

#### ➤ 2.5. Partnership, Europeanization and Cohesion Policy

In order to realize the place-based approach to regional development, provisions for the formation of meaningful partnerships between local assets and linkages between external factors such as EU institutions and EU facilitated relationships with other actors need to be established. The partnership principle in question comprises of a vertical cooperation between actors at different levels of government, emanating from the EU institution down to the national and subnational levels, and includes a horizontal axis



comprised of a variety of public and non-state actors in all stages of the implementation of the Cohesion Policy (Dabrowski, 2013). This analysis of a set of Central European countries, all exhibiting a different degree of regional and bottom-up involvement in the devising of cohesion policy during the last years of the 2007-2013 programming period, again emphasizes the importance of the place-based approach to regional development policies within the European Union. This approach to development includes tailor-made interventions to the targeted regions and necessitates the access to local knowledge. This local knowledge is only accessible if local actors and stake holders are deeply involved in the negotiation of Cohesion Policy goals and projects, and in the current aftermath of the crisis in Europe which left Europe deep in the so-called 'age of austerity', there has been put more emphasis on effective horizontal partnership as a tool allowing for improving the effectiveness and quality of EU-funded projects (Polverari and Michie, 2009:36-37). Closely related to the place-based approach to regional development, the partnership principle employed within the European Union has the capacity to trigger institutional change in the member states, creating a value added by promoting greater coordination between policy actors and a more inclusive approach to regional development (Mairate, 2006; Kelleher et al., 1999). Institutional capacity building and opportunities for policy innovation and learning across organizational boundaries will be aided by the application of the partnership principle to Cohesion Policy. It is evident that newer member states, mostly Central and Eastern European countries, will be given the chance to set of major changes within their governance patterns, due to the partnership principle's inclusion into Cohesion Policy. These countries contain a number of the poorest regions within Europe and have experienced great difficulties to adjust to the previous programming periods, resulting in increasing disparities between the regions, mostly due to cohesion policy failures, which will be addressed at a later point in this paper. One commonly named factor of why these regions have had difficulties benefiting from the Cohesion Policy is observed to be their legacy of centralized policy-making, entrenched bureaucratic routines and the weakness of civil society. The regional administrative institutions exhibit a limited capacity to learn and the Europeanization of regional policy actors in the central

and eastern European countries therefore remained ‘shallow’ (Dabrowski, 2013; Czernielewska et al., 2004). Contrary to the newer member states and the regions therein, the partnership principle is easier realized in countries which already have a tradition of cooperation between public, private, and societal actors, which in the European Union applies the most to Ireland and Scotland. However, it is not just problematic to implement the partnership principle in the EU-13, but other countries with centralized territorial administrations and policy-making styles, such as evident in Greece and Portugal, face similar problems in realizing the horizontal partnerships between local actors and institutions. Within these regions partnership was hampered by centralization, the financial and organizational weakness of local governments, and a frail non-state sector (Getimis and Grigoriadou, 2004; Nanetti et al., 2004). The capacity of a region to form partnerships is contingent upon institutional networks and social capital, and on territorial assets that enhance the regional actors’ capability to adapt to the Cohesion Policy’s multilevel governance (Dabrowski, 2013). How has the cohesion policy in these weaker regions, which most commonly come from a socialist background, impacted the process of Europeanization? Europeanization can be reviewed in Graziano and Vink (2007) and refers to the influence of EU policies on the member states’ policy processes, institutions, and politics. EU norms and ‘best practices’ are frequently reinterpreted by the domestic bureaucracies according to their perceptions, values and interests, which crucially affects Europeanization processes and can produce different unintended results and side-effect (Dabrowski, 2013). Put differently, this means that domestic officials can officially appear to ascribe to the Union’s best practices concerning a policy, while in reality interpreting them differently in order to advance their own agenda by using the ‘ritual of listening to foreigners’ (Sellar and McEwan, 2011:297).

The Poles’ ritual of listening to foreigners, in which the naïve but self-assured Westerner would encounter the shrewd Pole, who deftly charmed his guest while revealing nothing of what he truly thought... (a) sophisticated art of impressing Westerners while maneuvering to get what they wanted.(Wedel, 2001:3)

This was further developed by Kuus (2008a: 177), who stated that ‘listening to foreigners’ is much more than a process of learning; it is also a strategy of telling Westerners what they want to hear, so as to attract Western attention and money. During the process of accession to the European Union, the newer member states went through a hasty adjustment of domestic policies to EU policies in order to fulfill necessary accession criteria and since they had to adhere to certain conditionalities, and also in order to get ahold of external incentives. This conditionality-driven Europeanization did not encourage processes of learning and institutionalization of European rules. In the context of the Cohesion policy, the lack of cooperative culture, past centralization of governance, statism and silo-mentality of administration led to a ‘shallow’ Europeanization, coming only with superficial change without serious modification of pre-existing modes of governance (Czernielewska et al., 2004; Bruszt, 2008). To further distinguish how regions arrive at exhibiting ‘shallow’ Europeanization or full-fledged Europeanization, Bache (2008) makes use of the concepts of ‘thin’ and ‘thick’- learning. Thin learning is the rational mechanism of Europeanization, motivated by the constraint of having to accommodate the European Union’s policies and imposed rules. This ‘thin’ learning takes place without making any fundamental changes to the ‘established way of doing things’. (Dabrowski, 2013:4) If EU-imposed policies and rules are not only superficially implemented, but internalized by the domestic actors who consider them to be applicable and appropriate in their situation, we can speak of ‘thick’ learning. The old ‘ways of doing things’ are slowly transformed and the actors change their preferences. To differentiate between the two types of learning the actors’ motivation for adopting partnership principles and other conditionalities within the framework of the European Union are examined.

1. Desire to acquire funds, which is an indicator for ‘shallow’ Europeanization.
2. Actors’ perception of these partnerships as being useful and appropriate practices, which can help to draw on different sources of local knowledge, can be an indicator for a ‘deep change’ and Europeanization. In the case that a voluntary use of

partnership approach outside of the framework of Cohesion Policy is observed within a country and between its regional authorities and actors, this will also be seen as an indicator of internalization of European Union policies through thick learning.

### 3. Research questions

In this section, the main questions to be addressed are introduced, such as: If convergence created by cohesion policy is something to be desired, or does it conflict with “natural occurring” convergence by reducing incentives for laborers, inducing rent-seeking by Member state governments, inducing crowding-out of national funding, and generally the dilemma of encouraging agglomeration versus encouraging convergence. In short, I will attempt to answer the question: Can Cohesion Policy at times run counter to growth theories that state that factor mobility drives convergence? This is connected to the overall discussion of a spatially blind approach versus a place-based approach, which as of the start of the year 2014 will be directly applied to Cohesion Policy. Special attention will be paid to the least developed regions, which should be the main beneficiaries of Cohesion Policy but face additional problems advanced regions do not. This leads to the formulation of the first research question of this paper.

- Question 1: Can conflicts with “natural occurring”- convergence (Efficiency vs. Equity) created by the application of Cohesion Policy be reduced by utilizing a Place-based approach employing Territorial Capital to regional development?

Then I will move onward to the formulation of related questions to be addressed. If convergence is to be achieved within the Union, on which scale should regional policy be drafted and then put into action? Should a spatially blind approach, emphasizing agglomerating forces, be employed, abandoning smaller and medium sized cities and regions with less potential, while focusing on the biggest cities with the most potential for

growth? The expected outcome of this will entail a creation of convergence of GDP per capita across the European Union as a whole, while at the same time divergence on a national level is expected to rise. Focusing on a more traditional definition of cohesion policy relating to solidarity and spatial justice, a place-based approach would conform more to the EU treaties and enhance the union's legitimacy, should growth of regions, based on interactions of external institutions and local actors and knowledge exchange between them occur. This might lead to more equally dispersed centers for growth, a number of small regional clusters if so to say, drawing on literature of national and regional innovation systems which focus on knowledge clusters.

- Question 2: Application of a spatially neutral approach or place-based approach: Is a Place-based approach more suitable to the multi-country and multi-regional entity of the European Union?

The main purpose of this research is to fill the gap in the literature through building up a focus on localized knowledge creation and knowledge diffusion in order to explain the lack of impact of Cohesion Policy in the lagging regions. Drawing on knowledge- and learning literature, it will be established if the specific region's territory is what gives these lagging regions the potential for growth which so far has gone underutilized. Or, if the focus of the new EU Cohesion Policy<sup>2</sup>, based on a place-based approach, is what creates the possibility for discovering and utilizing territorially specific advantages within regions. The different conceptions of the creation of knowledge, learning, and innovation within regions necessary for the drafting and implementation of technology policy in context with the Cohesion funds will also be discussed in order to understand what is necessary to create a prosperous environment for partnerships in lagging regions. This will include a rendering of national and regional innovation systems to support the notion that place-based approaches are necessary for creating growth within the Union, which

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<sup>2</sup> New Cohesion Policy here means the Cohesion Policy Programming Period of 2014-2020

does not stand against the overall philosophical motivation and legitimacy of the European Union.

- Question 3: Can theories on technological change, knowledge creation, and learning be utilized to explain why a Place-based approach and Partnership Principle, backed by the European Commission, is needed to enhance regional development?

In summary, the questions to be addressed using the resources present in the literature review, will be made up as follows.

Question 1	Can conflicts with “natural occurring”- convergence (Efficiency vs. Equity) created by the application of Cohesion Policy be reduced by utilizing a Place-based approach employing Territorial Capital to regional development?
Question 2	Application of a spatially neutral approach or place-based approach: Is a Place-based approach more suitable to the multi-country and multi-regional entity of the European Union?
Question 3	Can theories on technological change, knowledge creation, and learning be utilized to explain why a Place-based approach and Partnership Principle, backed by the European Commission, is needed to enhance regional development?

#### 4. Economic growth models

One of the main objectives of cohesion funds has always been the achievement of convergence within the Union. Convergence, here convergence of income per capita, is

assumed to take place when poorer countries catch up to developed countries due to, among many other factors, the effect of diminishing returns of scale in the more advanced countries' industries. An example coming to mind here would be the "Asian tigers" (Japan, Republic of Korea, Hong Kong and Singapore) all of which experienced economic development at an incredible speed, enabling them to not only catch up to the more advanced Western economies, but also to surpass a number of them. There are of course factors that could mitigate or even completely stall a developing countries capacity to catch up, which seems to be proven by the simple fact that convergence is not taking place in every developing country. Such factors might be connected to the economic models employed in some countries, for instance closed economy versus open market economy, or that the capital required to reform economies and industries is not readily available in poorer countries and regions, further hindering convergence. More importantly for this paper, a lack of convergence might exist due to the lacking administrative capabilities which hinder the absorption or utilization of new technologies in underprivileged regions, for instance external border regions, or due to inadequate uniform regional development policies which are unsuited to a region as complex as the European Union, for instance core-drafted technology policies which are unsuitable for peripheral economies. In a European context, convergence fostered by the Cohesion policy is supposed to achieve a convergence of regional income per capita and thereby reduce the welfare differences between the Union's regions. The cohesion policy is funded by the European Union, and as such mostly by member state contributions, which could indicate that the Cohesion policy aims for a redistribution of funds from its richer regions to the poorer regions in need of assistance. Indeed, the official objective of the European Union and its member states' regional policies is to promote growth in the lagging regions and thereby reduce inequalities present within the Union and within nations; however it does not intend to achieve a convergence by purely redistributing income per capita. The redistribution of resources among places is not a sufficient condition for pursuing either the efficiency or the equity objectives set out in the Treaty when calling for a reduction of disparities (Barca Report, 2009). The main purpose of

cohesion policy is not redistribution but to trigger institutional change and to break inefficiencies and social exclusion traps through the provision of public goods and services (Barca Report, 2009: XIII).

#### ➤ 4.1. Neoclassical paradigm

Neoclassical growth theories claim that hand in hand with development and economic growth come decreases in disparities. Starting with the neoclassical growth theory based on the work of Richard Solow (1956) whose model is built on a production function and a capital accumulation function, with technological progress being exogenous to the model. Disparities are assumed to diminish due to the constant returns of scale and exogenously determined level of technology in further developed nations. This is termed the hypothesis of diminishing capital productivity. Economies converge towards their steady states at a declining growth rate due to the decline of the marginal productivity of capital. In the steady state of an economy, the amount of investment is equal to the amount of investment needed to keep the capital-technology ratio constant. The economy is in equilibrium and the output per worker grows at a constant rate, and most importantly, the economic growth rate is determined by technology. The further away from its steady state an economy is, the faster it will grow and catch up with the more developed ones, where growth has begun to slow down. Convergence, or in other words catching up to more advanced economies, will take place due to diminishing returns of scales in the more advanced economies, making investment in the developing regions more beneficial and thereby inducing convergence. According to the steady state principle, and to natural convergence, the further an economy is below the steady state the faster it will grow and catch up. Put differently, the poorer of two countries will exhibit an initially lower level of capital stock than the richer one. The poor country will have higher marginal productivity of capital and hence a lower capital-output ratio. Implying that in the adjustment to the steady state growth path the poorer country will experience faster per capita income growth than the richer one (Chatterji, 1992:62; Barro



and Sala-i-Martin, 1992). So it can be concluded that the neoclassical growth theory predicts convergence to take place naturally, without any policy instrument such as the European Cohesion Policy needed. If economies are structurally identical to each other they will converge to the same steady state, which is then labeled unconditional beta-convergence. However, one has to bear in mind that states do not necessarily need to converge to the same level of income or development, since steady states can be different among different nations, and certainly are different among the EU- member states. This variation of steady states exists since differences in institutional settings, sectorial patterns of production due to state-native comparative advantages, educational levels, technologies and so on and so forth are quite common in reality. Economies might therefore converge toward different steady states of growth, which is then measured with conditional beta-convergence. Convergence can also be measured by comparing the initial dispersion of income within an economy with later in time dispersion of income; this delta-convergence is however depended on the existence of beta-convergence as a precondition. Another mechanism used to explain convergence is the notion of comparative advantage, which is known as the Heckscher-Ohlin model. Within this model countries, or regions, export products that intensively utilize their abundant production factors while they import products that make intensive use of their scarce factors. An integration of trade will therefore lead to a convergence in product and factor prices (Petrakos et al., 2011). Another mechanism within the neoclassical framework is the factor movement model predicting the equalization of factor prices as low-wage and less advanced regions tend to attract capital, while the more advanced regions with high wages attract labor. All under the assumption of free factor movement (Borjas, 1989).

#### ➤ 4.2. Non-Neoclassical growth theories

There are a number of different schools of thought, regarding growth and the creation of convergence. Myrdal (1957) for instance, stated that growth is spatially

cumulative and is going to increase territorial inequalities. In contrast to neoclassical paradigms and in line with thoughts of scholars such as Myrdal, the endogenous growth theory tries to explain the economic forces that drive technological progress. This theory interprets capital more broadly than other theories and includes human, public, and technological capital (Lucas, 1988; Barro, 1990; Grossman and Helpman, 1991). Differences in the efforts to adapt to knowledge and generate new technologies are factors used to explain differences in long-term economic growth. If the accumulation of knowledge should also be subject to the law of diminishing returns then the return on technological investment increases with the stock of knowledge already accumulated. Simply put, it is easier for advanced economies to create new innovations and technologies, while poor countries lack the ability to do so. The endogenous growth theory therefore expects further divergence between rich and poor countries to take place. Another theory called the technology gap literature (Fagerberg, 1987) contradicts the above assumption of divergence taking place due to different technology-levels and assumes that poor countries can choose to behave as followers, who can imitate inventions of advanced countries, provided that there is an adequate capability to absorb and adapt to foreign technologies. Technological backward states can imitate the technological leaders and catch up to them, leading the economies to converge. This however assumes that developed countries are willing to share their technology readily with developing countries, which does not seem to be the case when observing current country relations. Further, one has to consider that the growth rate of technological change within a country depends on the technology gap between the country in question and the world leader in technology. Countries with a very small gap will not feel pressured to imitate the leader, and countries exhibiting a very large gap are under pressure to imitate, but do not have the capabilities to do so efficiently. This leads both groups of countries to adopt technological change slowly. Countries with a middle-sized gap are under enough pressure to mimic the world technological leader and also capable to do so, due to developed infrastructure and education (Chatterji, 1992). The model of Economic geography literature (Krugmann, 1991) which is most influential in economics

and, in the scope of this paper, helps to explain why spatially blind approaches have been promoted by a variety of actors. This approach studies how agglomeration-gains interact with other forces that shape economic geography and show that agglomeration in combination with different sets of factors can lead to different types of equilibria within an economy. Different scenarios are possible, for example, if regions are able to exploit their local comparative advantage, a balanced regional development will occur. If however, agglomeration takes place, a geographic concentration of economic activity will occur. Geographic concentration in combination with labor mobility would lead laborers to leave certain regions to find more promising work and eventually lead to densely and sparsely populated areas, while the GDP per capita would converge, this is what has been earlier in the literature review been labeled ‘people-based’ policies. Another scenario which could possibly occur within this approach would be that of low labor mobility in combination with agglomeration, which would lead to a polarization into advanced and depressed regions with high regional divergence in GDP per capita, a scenario which appears to portray the experience of the members of the European Union’s periphery. According to the scenarios, Economic geography literature can predict both convergence and divergence. In the context of the European Union, new economic geography expects that economic integration might amplify agglomeration, support the emergence of an explicit core-periphery pattern, and will lead to increasing disparities within the region while leading to a GDP per capita convergence across the Union (Petrakos et al., 2011).

#### ➤ 4.3. Convergence Club Theory

There have been a number of empirical studies that have moved past the conventional convergence analysis and maintain that convergence may come about for different groups of economies, which are labeled ‘convergence clubs’ (Artelaris et al., 2010). These theories put forward by, among others, Chatterji (1992) highlight the existence of two mutually conclusive convergence clubs, wherein one includes the rich countries and the other includes the poor countries, or regions. As long as the attention is

on one generation only, there is merit in defining convergence clubs as the set of countries for whom growth and initial income levels are negatively correlated.

This however, is not sufficient for the variance of real per capita income since the absolute gap between two convergence club members can be bigger at the end of the negative relationship.

Chatterji, (1992: 59)

This notion, which runs counter to the notion of convergence, is labeled weak convergence. And where there is weak convergence, there must be strong convergence as well, which requires two conditions: first, the existence of a steady state in which per capita real income is equalized. Secondly, dynamic forces must be present, which in the long run drive the world economy to this steady state. Weak convergence, assumed to be created by the neoclassical paradigms, is not sufficient for long-run equalization of per capita incomes. Two mutually exclusive convergence clubs exist, one for the rich countries and one for the poor regions, with the division of poor and rich being endogenously determined. In the steady state, the equalized per capita income of the rich will be higher than the equalized per capita income of the poor nations by a constant multiple. Since growth in the steady state is occurring, the absolute difference in per capita income between rich and poor will grow (Chatterji, 1992: 68). This lower convergence club is similar to the low-level equilibrium trap by Leibenstein (1957), suggesting that countries stuck in this trap, or in this low convergence club, would benefit from a 'big push' which might help them enter the higher convergence club in which self-sustained growth toward higher income per capita is possible. This can again be connected to the argument of the benefit of place-based approach to regional development, since the implementation of a 'big push' within a region requires detailed local knowledge and the involvement of local actors in possession of information about the local industries and possible advantages, in other words territorial capital and the

notions of local milieu and innovative milieu need to be integrated in order to be able to employ a 'big push' (Artelaris et al., 2010).

➤ 4.4. Convergence within the European Union

One of the questions which are most commonly asked in regard to cohesion policy is, if economic integration created by the European Union is increasing inequalities. If this is the case, then how Cohesion Policy should be drafted to adequately address these disparities. And further, we have to ask if there is a pattern emerging regarding the regions with the highest rates of disparities. It has been established that there are different growth theories, predicting different outcomes in regard to convergence. The question we will also have to address is what contribution cohesion policy makes to the process of convergence? Has it increased convergence or has it hindered convergence? The Central and Eastern European member states and especially the external border regions provide an interesting case to be studied, since they comprise of a number of nations recently under socialist regimes, with economic systems which were relatively closed off, and opened to the world around the same time. Market mechanisms replaced central planning and the market-based process of economic integration is generally assumed to generate higher levels of aggregate efficiency, while it is also expected to be connected to higher levels of inequality. In spatial terms, market-based economic integration will lead to regional imbalances with less advanced regions possibly experiencing weaker gains or even net losses, comparing to their more advanced counter parts.

➤ 4.5. Cohesion Policy and Convergence

If a region spends a stream of cohesion support on the productive public investment, then the steady state level of GDP per capita should rise as well. It also stands to reason that, if a region spends cohesion support on promoting technological progress then its productivity will also converge to the average of the European Union. Naturally, positive impacts are also strongly correlated with the way funding is spend, for example a positive correlation of regional economic growth with research and development related spending can be observed, while a negative one can be observed when the agriculture sector is funded. In the EU12 infrastructure projects have been benefiting from cohesion support the most, since infrastructure is interconnected with other sectors that require an efficient infrastructure to work well. As mentioned in the policy stages the European Commission commits the expenditure first but the actual payment does not follow immediately afterwards, creating a difference between actual payments and payments committed (Ederveen et al. 2003). A low execution rate of cohesion support indicates poor administrative capacities and planning, which is particularly high in the newest member states and the peripheral or lagging regions of the Union. The execution of funds usually rises towards the end of the programming period, due to the overcoming of ‘teething-problems’ (Kamps et al., 2009) at the start of the program. A low execution rate of funds in the new member states however, indicates that the overall quality of institutions is of importance when devising cohesion policy. Improvements could be achieved with the employment of place-based approach to regional development in these regions. The quality of the institutions hinders the absorption and the management of the projects to be funded, resulting of unprepared regions incapable of using the funds efficiently. This appears to be the direct result of the lack of cooperative culture, past centralization of governance, statism and silo-mentality of administration, mentioned in the literature review. As mentioned in the literature review, these problems are most probably caused by ‘shallow’ Europeanization, which includes only superficial changes to the ‘established ways of doing things’ without serious modification of pre-existing modes of governance (Czernielewska et al., 2004; Bruszt, 2008; Dabrowski, 2013:4).

➤ 4.6. Cohesion Policy Failures

One of the most prominent cohesion policy failures of the last programming periods was crowding-out of national regional policy. In the event of receiving funds from Brussels, member state governments were tempted to withdraw their own funding for projects, which results in projects losing their viability. To counter the effects of crowding out the European Commission introduced the concept of “additionality” (Ederveen et al., 2003). Additionality refers to mandatory national co-financing rates for each objective, amounting to 75-85% in the convergence objective, 50-85% in the Competitiveness and Employment objective and to 75-85% in European Territorial Cooperation objective. Another benefit of national co-financing could be seen in the possibility of it giving incentives to member states to invest in sensible projects with the greatest possible returns, since member states are rational actors and therefore will try to avoid spending their capital on insensible projects. This however, will not have led to a decrease in disparities, since if nation-wide policies are employed the focus will then rest on regions in which development through Cohesion funds is the easiest to achieve. Regions already exhibiting territorial advantages will therefore continue to grow, while the more desolate regions will be ignored. The difference between the approach of 2007-2013 from the 2014-2020 will be that the regions which do not exhibit such obvious advantages will be given the opportunity to discover or create such advantages through the employment of the place-based approach, partnership principle and territorial capital, making use of the local milieu and innovative milieu. As mentioned in the economic growth section of this paper, factor mobility drives convergence and when applying economic geography literature, which states that agglomeration in combination with labor mobility will lead to geographic concentration and GDP per capita convergence, one starts to consider the problem of Cohesion Policy reducing incentives for laborers to migrate to areas of agglomeration, but inducing them to stay in depressed regions occupied by industries in decline. It is stated in Ederveen et al. (2003) that a ‘schizophrenic’ position is taken by the European Commission:

‘This would not be a problem if labor was free to move from poor to rich regions. By allocating cohesion support to poor regions however, the EC reveals that it either accepts that labor is immobile, or believes that labor should be immobile. This is of course inconsistent with the ‘four freedoms’ – freedom of movement of labor, capital, goods, and services – which constitutes the essence of the Single Market. Moreover, cohesion policy sits uneasily with growth theories that say that factor mobility drives convergence, as well as with the observation that rapid convergence tends to coincide with high labor mobility’

Ederveen et al. (2003: 4)

Labor mobility is a means to achieve wage equalization and in reducing incentives to migrate, cohesion policy might obstruct convergence, the very goal it is supposed to achieve. Even though this might be phrased to dramatically, cohesion policy has been called by some of its opponents a ‘subsidy for unemployment’ (Boldrin, Canova; 2001). Another Cohesion Policy failure observed during the period of the last program would be the induction of rent seeking by national governments, who are tempted to propose only those projects to the European Commission from which they can expect to attract the highest possible funding. Rent-seeking means that national governments are designing projects that meet the European Commission’s criteria for funding, but which do not necessarily further economic growth or neglect social returns. This comes back to the concept of ‘shallow’ Europeanization mentioned in the literature review. The place-based approach to regional development including the partnership principle has the capacity to trigger institutional change in the member states, creating a value added by promoting greater coordination between policy actors and a more inclusive approach to regional development (Dabrowski, 2013). If coordination between local and external actors is not promoted then there is the substantial risk that the local elite, which in such regions is usually made up by only one faction who has institutionalized its dominance, can interpret European policies in a way most suitable to their own personal interests,



introducing moral hazard and corruption. The macroeconomic environment of fund-receiving countries must also be taken into account when distributing cohesion funds. If transfers are made to a country's economy which is characterized by unsustainable fast growth it can contribute to over-heating of an economy. However, since such high growth is not present in any of the EU's regions, I do not believe it to be an area of major concern relevant to this paper. There are trade-offs to be made in regard to cohesion funds and it appears to boil down to convergence versus agglomeration and also to equity versus efficiency trade-offs. An example would probably be the obstruction of reaping the benefits of returns of scale by cohesion policy obstruction of agglomeration forces. As has been mentioned in a number of articles promoting the place-based approach over the space-neutral approach to development within the Union, we will have to take the unique situation of the European Union into account. Due to its institutional, legal, geographical, and political heterogeneity, the best approach to development would be to make more use of the local and regional institutions in order to tap into regional potentials and discover or create competitive advantages within these regions. Space neutrality and a purely growth oriented definitions of cohesion policy is leading to a deeper divide within and between the countries of Europe, as stated by Barca and his colleagues (Barca et al.; 2012). If the benefits of European integration go first and foremost to a handful of countries, while many other regions lose out, the political legitimacy of the European Union might wane. A 'winner takes all outcome' is not consistent with the fundamental philosophical basis of the Union (Barca et al. 2012).

➤ 4.7. Cohesion Policy and the New Member States

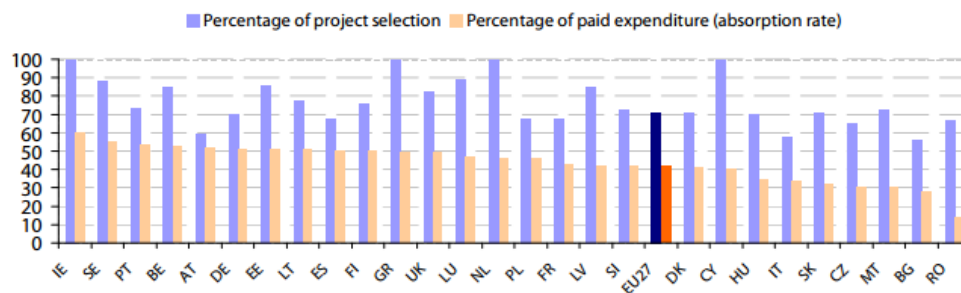
The enlargement of the European Union in 2004, 2007, and 2013 had important implications for Cohesion Policy, including the increase in budget and the need for the review and adjustment of the distribution of funds. To emphasize the economic situation of the Union right after the consecutive accessions, it is helpful to mention that the EU's population increased by 28% while the GDP per capita only increased by 4%. Even

though all countries which acceded to the EU in 2004 and 2007 qualified for support from objective 1, it is noteworthy that there were, and to some extent still are, huge differences in levels of development between regions within the EU12. The accession of several rather poor countries pulled down the average per capita income and as a result shifted the eligibility thresholds for cohesion policy, which resulted in regions within the EU, especially in Spain and Ireland, to not be eligible for Objective 1 funding anymore. This is mentioned here mainly to draw attention to the possibility of political infeasibility of making adjustments to cohesion policy, meaning that it might be difficult for member states to accept changes in the funding they receive, because they naturally vice for as much support as they can possibly attract. Even prior to their accession to the Union the EU12 experienced convergence toward the EU-economic average, with the exception of Romania which experienced a decline in GDP during the late 90ies. The pre-accession support these countries received surely also helped the economies to develop at a faster pace. There are several other factors contributing to this convergence prior and shortly after the EU-enlargement. For one, market integration, domestic reforms, and adaption to EU regulations have helped to increase the inflow of FDI, technology transfers, and free mobility of labor with income from remittance especially important for Romania and Bulgaria. Secondly, many of the EU12 are still undergoing transformations as post-communist countries and are developing governmental and legal institutions enhancing administrative capacities. Together with the creation of civil society, structural reforms, and investments, economic growth can be enhanced. However, the newer member states administrative capacities are still somewhat behind that of the old EU states which hinders the absorption rates of cohesion funds considerably, especially if these policies come in the form of core-drafted technology policies, which are not applicable in some of these regions. While a convergence in terms of GDP per capita was achieved across the regions of the Union overall, regional disparities, especially but not only, in the EU12 deepened further. This can be understood as a result of post-nationalist transformation within the newest regions of the EU during which deindustrialization took place at accelerated speed while development of services picked up and was concentrated in the

metropolitan cores. The concentration of knowledge intensive branches in the metropolitan core is explained by the simple fact that these areas are best prepared for their development and also for the absorption of funding, due to more advanced administrative capacities and existing technologies. Absorption capacities denote (Zaman, Georgescu; 2009) to what extent a member state is able to spend the financial resources allocated to the region from the cohesion funds in an effective and efficient manner.

Figure 2. Percentage of Project Selection (2007-2011) and paid expenditure (2007-2011)

**Figure 3: Percentage of project selection (2007-11) and paid expenditure (2007-January 2013)**



Source: European Commission, [Strategic report on implementation 2007-13](#), 2013.

At the same time non-metropolitan regions witnessed a collapse of their industrial base and were not able to develop and therefore not able to absorb funds efficiently, leaving them to become depressed regions faced with high unemployment and other underdevelopment issues. This leads to the conclusion that mostly metropolitan areas within the new member states were capable of efficiently absorbing support from cohesion policy, helping these regions to further develop while the rural or peripheral areas were falling behind even further. Thus, cohesion funding of the 2007-2013 programming period has led to growing regional disparities in new member states. One of the major problems during this time period was the contradictory definitions by member states and other actors of what cohesion policy should set out to achieve.

## 5. Factors and determinants of regional growth

Drawing on a number of different approaches originally stemming from business, economics, or political economic sectors, connections can be drawn to the process of partnership principle-aided drafting of cohesion policy which is being put forward as the best possible option to enhance growth and convergence across the European Union, making use of a place-based approach to regional development. Starting from the perspective of states behaving as competitors, as put forward by Porter (1990), can these principles further underline why the place-based approach using local actors, such as elites and civil society, could help increase regional development? Nation states are theorized about as being competitors trying to enhance their trading positions in order to capture the largest shares of gains from trade as it is possible. Especially when trying to attract investment, which they need in order to build up their production bases, which than in turn increases the states' competitiveness. This competition is not limited to between nations, but also plays out between regions, with every region competing with others to attract as much of the limited amount of geographically mobile investment available (Dicken, 2011:200). Many national and local governments employ Porter's 'diamond' which is made up of the four points of factor conditions, demand conditions, related and supporting industries and firm strategy, structure, and rivalry. According to Porter, a nation's competitive advantage consists of highly localized processes internal to the country (or region). The four, plus two additional factors, are mutually reinforcing and create the competitive advantage.

1. *Factor conditions* are stated to be of the greatest importance since they are created within the nation, or region, itself through a process that differs widely across nations and among industries. Nations, or regions, therefore will be competitive where they possess unusually high quality institutional mechanisms for specialized factor creation. This includes the level of skills and knowledge of the country's population and the provision of sophisticated physical infrastructure, including transport and communications.

2. *Demand conditions* need to be taken into account. Home markets exert a huge amount of influence on a firm's ability to perceive and interpret buyer needs; therefore proximity to the right type of buyers is essential.
3. *Related and supporting industries* that are internationally competitive, which states that the home-based suppliers capable of enhancing the process of innovation and upgrading are responsible for the emergence of competitive advantage emerging from close working relationships between world-class suppliers and the industry.
4. *Firm strategy, structure, and rivalry* explain that the way in which firms are managed and choose to compete is affected by national or regional circumstances, which include attitudes toward authority, norms and values, individualistic or group behavior, etc. The rivalries between domestic firms create strong incentives to innovate new products and processes. Beyond that, they might be motivated to sell not only in the local or regional markets, but also internationally to improve their competitiveness.
5. *The role of chance*: Occasional random occurrences of innovations or 'historical accidents' that may create new entrepreneurs.
6. *The role of government*: Porter explicitly refuses to regard government as a competitive determinant of the same order as the four primary determinants of his diamond. In his view the government has only some influence on his four determinants

Source: Porter, 1990: Chapter 3

While Porter's diamond is applied by many national and local governments it has been criticized for not giving the role of the state enough attention. In understating the importance of the role of the state he neglects an important factor which helps to explain how economies function. Further, especially notable in the context of research on the European Union, Porter's diamond is not taking the influence of trans-nationalization of business activities into account. Nonetheless, a connection between Porter's four factors

and the place-based approach might be drawn and could be useful to enhance the competitiveness of individual regions making use of local actors and knowledge, with the addition of the explicit involvement of the European institutions, which would provide information and enhance certainty in negotiations. The determinants of regional growth in Europe include agglomeration economies, geography, economic integration, and economic structures, which differ widely across the Union. Large urban areas are able to generate advantages for firms leading to growth due to agglomeration economies (Petrakos, 2011). There exist two distinct types of clusters, one generalized and one specialized. Due to the positive effects provided by ‘spillovers’ which are created when activities in a particular place are connected with each other. The important question in context of Cohesion Policy is why do clusters arise in one particular place and not in others? Can the place-based approach to regional policy, utilizing local actors and knowledge emulate these effects in diverse areas to increase the development and create convergence through application of Cohesion Policy? First and foremost it was stated by Gritsch (2005) that:

‘...the attraction that a center (of agglomeration) possesses has its origin in the historical accident that something once started there, and not in a number of other places where it could equally well or better have started, and that this start had met with success.’

Gritsch (2005)

Once a cluster, or agglomeration, has been established it grows through a process of cumulative, self-reinforcing development involving, among other factors, stimulation of entrepreneurship and innovation, economic diversification, and thickening of local institutions. However, through knowledge innovation, aided by the combined efforts of local actors, coming from the business- and public sectors, as well as civil society, as it is promoted in the place-based approach including the partnership-principle into Cohesion Policy, regional development could be achieved in these lagging regions as well. This is feasible since a competitive advantage might be created by the place-based approach to

regional development, possibly leading to knowledge-cluster effects. When we make use of Porter's definition of competitive advantage, we can see how the notion of territorial capital and local milieu can be connected to it. If we further add the role of the European Union institutions into the mix, which is increasing the flow of information and other factors of production toward and between the regions, we can conclude that regions could be enabled to realize competitive advantages within their specific geographical boundaries. The main point being, that an agglomeration does not have to be already in existence in order to meaningfully employ and benefit from Cohesion Policy, but that the Cohesion Funds might be employed to create such forces in order to achieve self-sustaining development within regions across the EU, enhancing the overall growth of the Union.

➤ 5.1. Why knowledge is important for place-based approach in EU

*'Tacit Knowledge: We can know more than we can tell.'*

Polany (1966)

According to Dicken (2011) learning is necessary for innovation and depends on the accumulation and development of relevant knowledge. Knowledge is produced, used, and enhanced in specific places. The combination of social, cultural, political, legal, educational, and economic institutions and practices varies between national and regional contexts. This again comes back to the need of the integration of partnership principle in order to enhance the efficiency of cohesion policy in order to reduce disparities in regional development by tapping into regional development potentials. The combination of regional factors mentioned above leads to the creation of regional distinctive technology systems and variations in these systems are persisting, even though globalization forces are strong. National systems of innovation are made up of aggregations of localized knowledge, and there is an emphasis on the 'local' since the

creation and diffusion of knowledge lies in a basic distinction in the nature of knowledge itself, which can be filed into two distinct categories.

1. *Explicit or codified knowledge*, which is the kind of knowledge that can be expressed in documents, manuals, etc. This way the knowledge is easily dispersed and does not depend on face-to-face interactions between actors.
2. *Tacit knowledge*, far more complex than codified knowledge, which represents deeply personalized knowledge, possessed by individuals and which is almost impossible to express or communicate to others through formal mechanisms, therefore requiring face-to-face contact and interaction between individuals.

The differences in between these two types of knowledge are fundamental in understanding why the place-based approach bringing together individuals representing different sectors within the same regions is impertinent. Tacit knowledge requires experience and interaction, both of which might in most cases not exist in a top-down, one-size-fits-all approach to development. However, external institutions can provide essential information on for instance cross border-collaboration, information about businesses and specialists, and they can further provide necessary safe guards to enhance trust and thereby aiding cooperation in development substantially. While that may be the case, it does not change the fact that in certain aspects knowledge can be ‘sticky’ in the sense that it heavily depends on context, which in the case of regional development in the EU where much depends on the projects chosen to be funded by Cohesion Policy, is usually highly localized. The creation of a local clustering of knowledge is dependent on a number of characteristics of the innovation process that can be classified as highly susceptible to geographic proximity. That would in our case address the need for local knowledge salient to producing sound plans for projects to be funded by cohesion policy. Removed from the scene, non-local actors might not be capable of choosing the right combination of business- or infrastructure-related projects which would have the highest impact on the creation of self-sustainable development within that specific region. Dicken (2011:104) lays out five notions, namely the notions of localized patterns of



communication, localized innovation search and scanning patterns, localized invention and learning patterns, localized knowledge sharing, and localized patterns of innovation capabilities and performance.

1. *The notion of localized patterns of communication:* geographical distance has a strong impact on the likelihood of individuals within and between organizations, public, or private, sharing knowledge and information between each other, forming information links.
2. *Notion of localized innovation search and scanning patterns:* geographical proximity influences the nature of a firm's search process for technological inputs or possible collaborators. Small firms, in particular, often have a geographically narrower 'scanning field' than larger firms.
3. *Localized invention and learning patterns:* innovation often occurs in response to specific local problems. Processes of 'learning by doing' and 'learning by using' tend to be closely related to physical proximity in the production process.
4. *Localized knowledge sharing:* acquisition and communication of tacit knowledge are strongly localized geographically, there is a tendency for localized 'knowledge pools' to develop around specific activities.
5. *Localized patterns of innovation capabilities and performance:* geographical proximity, in enriching the depth of particular knowledge and its use, can reduce the risk and uncertainty of innovation.

This emphasis on localized capabilities and untraded interdependencies has shown that socio-institutional settings, inter-firm communication, and interactive processes of localized learning have an important part to play when it comes to the processes of innovation and growth (Maskell et al., 1998; Gordon and McCann, 200; Bathelt and Gluecker, 2002; Bathelt et al., 2004).

But as mentioned above, the role of the European Union institutions cannot be left out, since it would not be possible to sustain such local knowledge clusters without interaction with external actors and exchange of information and experts. Without such external linkages the localized cluster might experience institutional lock-in-effects. As mentioned

by Bathelt et al. (2004) there exists a need of extra-local linkages in order to mitigate the dangers of local networks that are too loose, too exclusive and too rigid. Therefore a connection with externals, such as firms with suppliers, customers, sources of specific information and knowledge, etc., needs to be integrated. The Union institutions can play the part emphasized by Burt (1992) of those actors which are able to make connections between otherwise remote networks. These could be connected to non-redundant linkages which bridge 'structural holes'. To achieve this bridging-effect, information networks are established, enabling the local actors to go beyond the routines present within the local cluster, very much in line with the concept global pipelines which of course addresses the corporate and firm interests, but the general idea of the a pipeline is applicable here as well. Bathelt et al. (2004) established a model explaining the composition of a localized knowledge cluster which shows the interactions of actors and firms within a region with shared values and attitudes present. Local information flows, such as gossip, news, and buzz are proliferated within the region and its actors, while external information networks, in the figure below termed 'global pipelines' connect the region to the outside world letting in external information.

Figure 3. Localized Knowledge Clusters

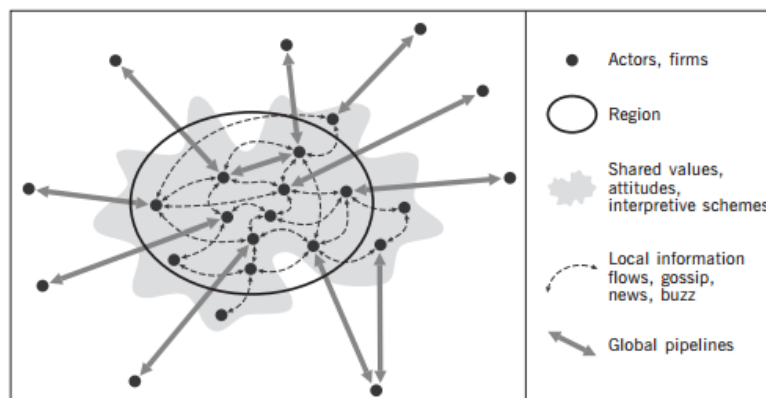


Figure 4.15 Localized knowledge clusters in a wider context: local buzz and global pipelines

Source: based on Bathelt et al., 2004: Figure 1

Source: Dicken (2011)

➤ 5.2. Problematic of tacit-knowledge diffusion: purely local or beyond local?

When talking about the concept of tacit knowledge, which takes up an important role within the focus on place-based approach to Cohesion Policy created convergence, there are three positions from which we can draw (Gertler, 2002).

1. Learning region: As mentioned in the sections above, tacit knowledge is not easily transmitted to others, put differently it does not travel around easily, as codified knowledge is argued to do. This is due to the manner in which tacit knowledge is being transmitted. Through face-to-face interaction between partners sharing the same language, common codes of communication; shared conventions and norms; personal knowledge of each other based on a past history of successful collaboration or informal interaction. Of vital importance is also the creation of trust among partners which helps to facilitate the flow of tacit knowledge between partners. Within this approach it appears evident that intimate knowledge of other local actors, such as firms, and their capabilities is build up through past interactions and word-of-mouth referrals. The thereby built-up local knowledge results in network effects which are strongly supported by locally-grounded deterrents to opportunistic behavior (Gertler, 2002:85).
2. Communities of practice: Gertler defines these communities as groups of workers informally bound together by shared experience, expertise, and commitment to a joint enterprise. They self-organize for the purpose of solving practical problems facing the larger organization, and during the process they produce innovations (both product and process innovations). Since firms or other actors have connections to other organizations it is possible for tacit knowledge to flow across the boundaries of individual organizations. Which basically means that as long as relational proximity is present learning does not need to be hindered by distance between actors.

3. Knowledge enablers: The production of tacit knowledge remains strongly localized; however, the possibilities for its dissemination create large spread effects within multi-divisional and multi-locational organizations. There is also at least the potential for wider diffusion of this knowledge outside the organization, if the appropriate enablers are in place.

Source: Gertler, 2002:88

In the context of the European Union, I take this to understand that as long as there are provisions for an interconnection between actors, providing opportunities and incentives to exchange information facilitated by the EU, and its partnership-regulation in particular, geographical distance will not hamper the proliferation of tacit knowledge in regard to projects concerning Cohesion Policy projects in one region. This will enable actors faced with a particular geographical challenge to its development to draw on various sources of knowledge coming from other regions' and actors' experiences. Territories are to a large degree socially constructed and can in the EU-perspective benefit from the larger European identity which in connection with the Cohesion Policy, partnership principle and place-based approach to development can draw more easily on relational proximity connecting actors and organizations of many types all across the Union bound by a shared European identity. This is essential because it shows the importance and strength of the influence of underlying similarities and relationships, in contrast to the impact of mere geographical proximity. Location matters, however a common identity can also be hugely beneficial especially in the context of the European Union and transcend the more confining aspects of location.

### ➤ 5.3. Regional Innovation Systems

Here it is again emphasized that there are a number of factors that speak for the employment of regionalized policies to induce growth enhancing conditions, which in our

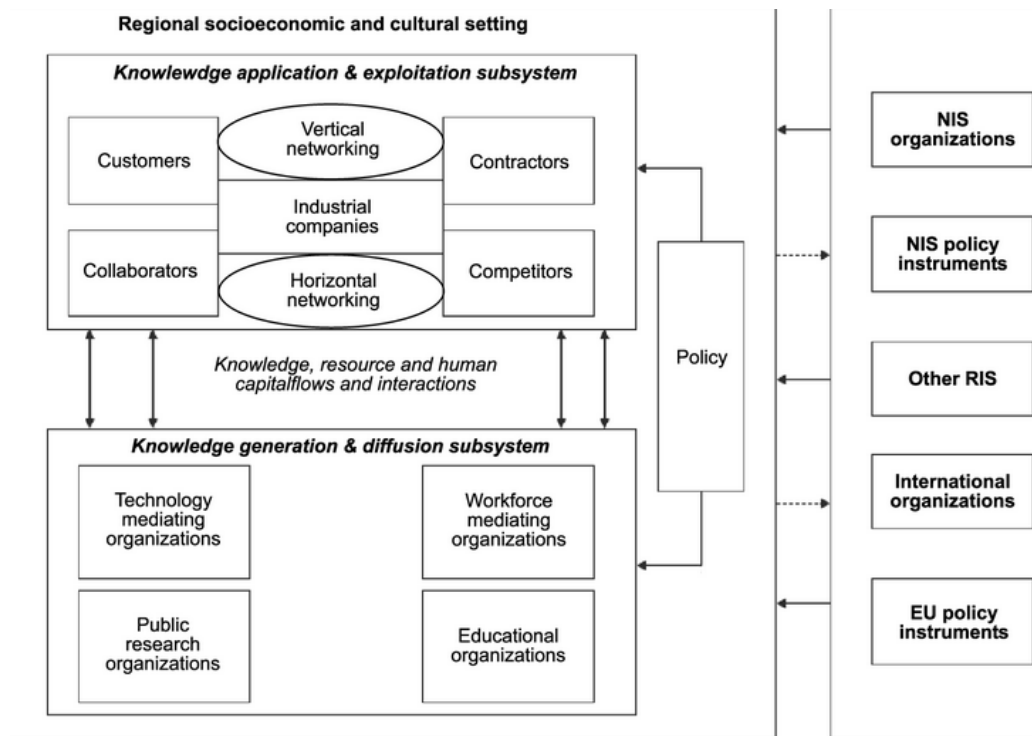
case concerns the drafting of Cohesion Policy, partially acting as an innovation policy aimed at reducing disparities at the European level. Advantages of regionalization of such policies are:

1. Since innovation processes are not spread evenly throughout all of Europe's regions, as we have covered extensively by now, it is likely that national or EU-level innovation policies might in some regions have an unintended impact on regional development. Therefore it is more appropriate to give innovation policies a regional orientation so that increases in innovation and therefore in growth can be achieved more efficiently.
2. Due to the existence of regional differences in regard to innovation activity as well as differences in how regional innovation systems function, it is reasonable that the European Union's best practices will not lead to growth and innovation in certain areas. As mentioned in the Barca Report (2009) a 'one-size-fits-all' approach to regional development is not sufficient within the context of the European Union.
3. Innovation promotion on a regional level could be essential for regional development, however there is a chance of conflicts between regional development and national development overall. Here again the Cohesion Policy is essential, since it provides additional support for regions, so there is no crowding out of funding by the regional innovation policy at the expense of other regions within the nation.
4. It is possible to learn from the application of different approaches to regional development and create preconditions for comparison and benchmarking, in order to identify, exchange, and adopt solutions to growth-problems among different regions across the Union.

Developing endogenous capacity of regions to innovate in order to create competitive advantage can be referred to as regional constructed advantage in which the establishment of regional innovation systems plays a strategic role (Cooke and Leydesdorff, 2006).

However, a thorough examination of the applicability of the concept of constructed competitive advantage goes beyond the scope of this paper.

Figure 4. Regional Socioeconomic and cultural setting of Regional Innovation Systems



Source: Toedling and Trippl, 2005

Toedling and Trippl (2005) argue that regions differ with respect to their industrial specialization pattern and their innovation performance, and that knowledge spillovers are often location-bound, and finally that policy competences are bound to subnational territories. The table above shows the knowledge application and exploitation subsystem, which comprises of companies, their clients, suppliers, competitors and their industrial cooperation partners. The second main building block in the graph is made up of the knowledge generation and diffusion subsystem of a Regional Innovation System, consisting of various institutions that are engaged in the production and diffusing of knowledge and skills. Especially added in this graph by Toedling and Trippl is the

regional policy dimension, and it is emphasized again that policy actors can play a powerful role in shaping the regions innovation process, hence also the regional growth process, if the regional actors are awarded enough freedom to formulate and implement practices and projects of their own choosing. This addresses the principle of subsidiarity as well as the information pipelines from the EU institutions to the individual regions that were mentioned in the above sections. Ideally, there exists an intense relationship within and between these subsystems which facilitate the flow of knowledge, resources, and human capital. However, there are also a number of failures in Regional Innovation Systems which need to be addressed here in order to draw connections to the use of Cohesion Policy to enhance regional competitiveness. Regional systems of innovation might be doomed to fail due to a lack of development of organizational and institutional set up, such as limited innovation capabilities of firms or clusters due to either a lack of specialization or on the other side, by an overspecialization in traditional industries and outdated technologies. A lacking capability to innovate may also be contingent upon the existence of inappropriate organizations, for instance research-, education organizations, etc. More importantly for this paper however, is the failure of Regional Innovation Systems due to an inappropriate or entirely missing linkage between different actors and organizations involved in the innovation process (Toedtling and Trippel, 2005:1207). Not being able to keep up with advanced regions can therefore result in a lack of communication and cooperation between the actors inside and outside the system, leading to an insufficient flow of information and technology. International connections are of the utmost importance for sustaining a regions' innovativeness. If external links are poorly developed, the region suffers from a limited access to international pools of resources and knowledge (Toedtling and Trippel, 2005:1207). This further indicates that regions exhibiting shallow Europeanization will be less able to form such international connections due to a lack of facilitation through EU institutions, as well as through their lacking effort to integrate partnership agreements as provisioned under the new European Commission's regulation. Peripheral and other lagging regions are regarded as less innovative in comparison to agglomerations, within such regions R&D activities are

substantially lower and support organization and information linkages are underdeveloped. The main problems of the lagging regions is a low level of R&D and innovation due to a dominance of SMEs in traditional industries, weakly developed firms clusters, few knowledge providers and weak endowment with innovation support institutions. Due to the existence of these problems, a different approach to innovation policy and development within such regions must be taken. To enhance potentials for growth in a region's efforts to attract external companies and embed them into the region must be undertaken; linkages to external providers of knowledge, e.g. European Union institutions must be strengthened. However, most importantly, each region must develop and adapt strategies that fit its own geographically specific circumstances. To draft regional policy which will lead to an enhancement of growth and a decrease in disparities among European Union regions, policy makers must possess detailed knowledge about the region's specific characteristics. Old routines and practices in regard to national development must be overcome and openness to adapt new technologies and policies, as well as a motivation of social actors to work together meaningfully, must be present.

## **6. Empirical Study of three CECs**

To achieve a more inclusive approach to regional development utilizing regional governance and cooperation in three Central European countries, the partnerships between regional actors of these countries are scrutinized by Dabrowski (2013). As already mentioned in the literature review, partnerships require vertical cooperation between actors at different levels of government, spanning from the EU level down to the subnational level, and horizontal cooperation between a variety of local actors, such as public and non-state stakeholders. Do the sub-national actors comply to the partnership regulations? If they do so, are they doing it in a context of 'thick' learning or 'thin' learning? The study examines the last years of Cohesion Policy of 2007-2013, during which the partnership principle was first introduced and should have been implemented

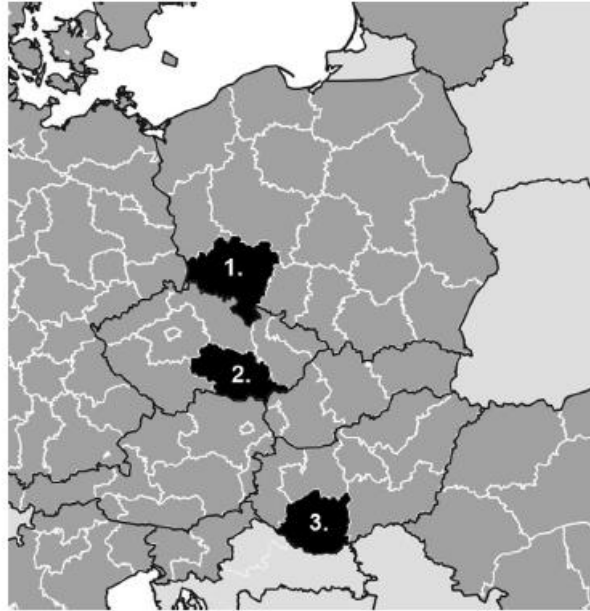


by regional actors. Covered in the literature review were the indicators which were used in the empirical analysis to classify if regional actors are a ‘thick’ or ‘thin’ learners.

Local actor's motivation and action	Type of Europeanization/Learning
Desire to acquire funds	Shallow Europeanization/Thin Learning
Actors' perception of partnerships as being useful and appropriate practices	Deep Change and Europeanization/Thick Learning
Voluntary use of partnership approach outside of Cohesion Policy Framework	Deep Change and Europeanization/Thick Learning

The study was conducted in the year of 2011 and consisted of 46 semi-structured interviews with regional policy officials conducted within Poland, Czech Republic, and Hungary.

Figure 5. Central European Regions Map

**Figure 1. The regions studied.**

1. Lower Silesia, Poland.

2. South East Cohesion Region, Czech Republic.

3. South Transdanubia, Hungary.

Note: the map represents NUTS 2 units on which the study focused. In the cases of the Czech Republic and Hungary these do not correspond to the units of self-governed territorial administration.

Source: author's elaboration based on a blank map from Wikimedia Commons.

3

The three chosen countries share the experience of communist rule, however they do still differ from each other in the degree of centralization, organization of territorial administration and the average size of municipalities. This is important to note, since these differences affect the processes of Europeanization of the sub-national actors in the countries and results in different patterns of adjustment to EU Cohesion Policy within the regions. Within each of the three countries, one region was chosen, and each of them is an internal border region. The Polish region of lower Silesia borders the Czech Republic, the South-East Cohesion region of the Czech Republic borders Austria and Slovakia, and

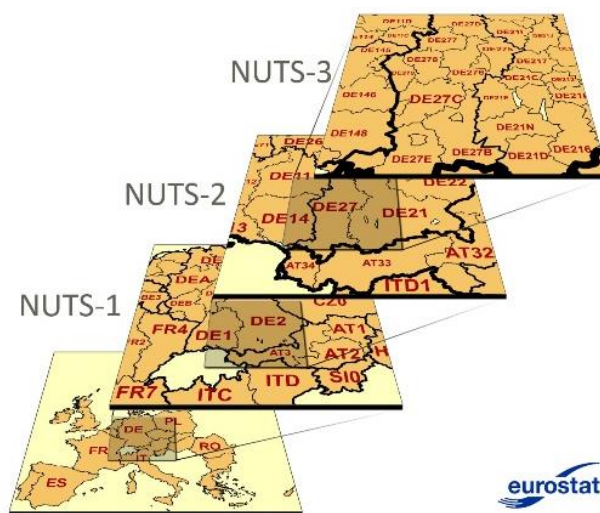
<sup>3</sup> Figure by Dabrowski (2013)

South Transdanubia, the Hungarian region, borders Croatia, which at the time of the study was not yet a member of the EU, so it actually was an external border region. However, the pre-accession status of Croatia led to a different relation than between other external border regions and their foreign neighbors.

#### ➤ 6.1. Poland: Lower Silesia

Looking at the different regions it is observed that Poland has the most decentralized three-tier system of territorial administration. Its regions largely correspond with the NUTS 2 (Figure below) and their elected executives were given wide competencies in regional development policy and management on the implementation of the Cohesion Policy for the period of the 2007-2013 programming period, which has increased their standing in the state hierarchy and within the political arena. The following figure depicts the NUTS<sup>4</sup> classification:

Figure 6. NUTS-Classification



The current NUTS classification valid from 1 January 2012 until 31 December 2014 lists 97 regions at NUTS 1, 270 regions at NUTS 2 and 1294 regions at NUTS 3 level.

<sup>4</sup> NUTS Nomenclature of territorial units for statistics, EUROSTAT

Level	Minimum population	Maximum population
NUTS 1 regions	3 million	7 million
NUTS 2 regions	800 000	3 million
NUTS 3 regions	150 000	800 000

The Polish region is more densely populated than the other regions within the Czech Republic and Hungary, and it further benefits from a strong and well established civil society.

### ➤ 6.2. Czech Republic: South East Cohesion Region

The area of the Czech Republic is made up of 14 self-governed regions, which all are headed over by an elected regional assembly and a regional authority. Responsible for regional development is the regional governor. The fact that the regions remain financially weak and highly dependent on the central government casts doubt on their ability to effectively take part in the drafting and implementation of Cohesion Policy. Czech territorial administration is characterized by a disjointed structure and weak cooperation across levels. (Myant and Smith, 2006; Dabrowski, 2013) Unlike the Polish regions, which already largely correspond to the NUTS 2 level, the Czech Republic has created eight artificial NUTS 2 regions, regrouping several regions, for the implementation of Cohesion Policy and its financial tools. These regional authorities have become increasingly competent and have acquired political weight and legitimacy, and in the absence of a strong civil society, they, meaning their local elites, became the dominant actors at the regional level (Marek and Baun, 2008b: 183). After the end of the socialist regime, the system of local self-government that was introduced led to many small and fragmented municipalities that by themselves were too weak to play much of a role in strategic decisions (Myant and Smith, 2006:167). The relative low number of inhabitants within these regions and the limited budget available to them resulted in the formation of cooperation between small municipalities. These ‘micro-regions’ pool resources for particular projects, provisioning of public services, and during the programming period of 2007-2013 also jointly implemented the Cohesion Policy. The

South East Cohesion Region, made up by South Moravia and Vysocina, is the second highest contributor to the Czech GDP and exhibits a strong cooperative culture.

### ➤ 7.3. Hungary: South Transdanubia

Of the three chosen countries within this empirical analysis, Hungary exhibits the most centralized system of territorial administration and management of Cohesion Policy. Local-level authorities remain very fragmented, have low population counts and limited resources to provide public services. Similar to the Czech case, these difficulties have promoted the formation of micro-regions where resources are pooled, services provided jointly, joint investment in infrastructure and application for external funding are undertaken. Hungary faces difficulties in implementing EU-promoted regionalization mainly due to the weak financial situation of the counties, dysfunction of regional development committees and a misfit of artificial NUTS 2 regions and the spatial ties of the actors operating on a smaller scale. Horvath (2008), also states that a trend toward re-centralization and reversal of regionalization can be observed within Hungary (Dabrowski, 2013). Contrasting Poland and Czech regions, Hungarian NUTS 2 level institutions are not the managing authorities for the regional operation programs. Furthermore, the regional development system was set up outside the state administration structures, which limits the scope for spillover of the EU Cohesion Policy norms and practices on the regional system. The region chosen for the analysis is economically less developed than other Hungarian regions, however, new policy approaches and implementation of EU regional funding in Hungary were pioneered in South Transdanubia, awarding it the reputation of the country's 'cradle of regionalism'.

### ➤ 6.4. Empirical analysis findings

The research was concentrated on three aspects of horizontal cooperation.

1. Partnership in programming
2. Partnership in implementation and monitoring
3. Partnership in project level

Regarding the first aspect of horizontal partnership, it is found that within all three regions, belonging to the individual countries, widespread regional-level consultations had been organized, offering the opportunity to participate in a number of working groups, seminars and conferences, or submitting suggestions via online consultation forums. The original officials in regionalization within all countries saw the consultation and cooperation in programming as an EU-imposed requirement. Something they had to do in order to attract Cohesion funding, so to speak. This perception changed over time, with interviewees stating that the consultations were viewed by most officials as ‘a very good practice’ and a means to improve the regional operation programs. Most participants of the empirical analysis also stated that the consultations allowed for the exploitation of local knowledge and enhanced connection between the region’s needs and the program’s priorities (Dabrowski, 2013:8). The partnership in programming was identified to help among other things, the spotting of potential implementation problems, building consensus on the use of the financial tools of Cohesion Policy in the region and sharing responsibility for decisions taken with all the stakeholders. In all three regions the most important spin-off effect created by the partnership in programming was the establishment of a broad regional network. The biggest hindrances to establishing meaningful partnerships was observed to be the lack of capacity, knowledge and desire of local-level actors to take part in regional partnership initiatives. Local authorities dominated the programming while economic and social partners often failed to make their contributions. The mismatch of NUTS 2 and regional boundaries contributed to a lower involvement of local actors within the Czech and Hungarian regions. Regarding the second aspect of horizontal partnership, partnership in implementation in monitoring, it was observed that ‘shallow’ Europeanization remained the strongest force within all three regions. For instance in the Czech region, the final decisions were taken by the

board of regional executives, not allowing for any further consultation with other local actors. Within the Polish region, the participation in partnership committees was mainly motivated by the potential to lobby in favor of their own projects or obtain better information on the structural funds, which obviously casts doubt on their understanding and view of partnership. Within Hungary, government officials were allotted the majority of seats in monitoring committees which effectively limited any influence other regional actors could have, resulting in local actors not bothering to show up to the meetings, since the government officials would be the ones who set the agenda at any rate. Regarding project-level partnership, which is the differentiated capacity to initiate and sustain cooperation, it is observed that the existence of Cohesion Policy and the availability of structural funds has led to new forms of collaboration between local actors as part of EU-funded projects, showing a different aspect of the impact of EU Cohesion Policy on the patterns of governance. Project-level partnerships can take the form of alliances between local authorities or cross-sectorial partnerships that combine public and non-state actors. The empirical analysis reveals that the three regions differ substantially from each other in regard to project-level partnerships. This is due to the fact that the capacities to initiate partnership projects depends on the size of the municipalities, which in turn determines the financial and human resources that can be invested in elaboration of common goals as well as the design and implementation of joint investment (Dabrowski, 2013:12). Naturally, the local elites openness to collaboration, previous experience of cooperation, and activism are of vital importance to the successful formation of project-level partnerships. In the Polish region, project partnerships were shown to be quite unpopular due to the lack of cooperative memory and a lack of trust in the inter-institutional cooperation in general. The programming period of 2007-2013 however, seemed to have a positive impact on this aspect of horizontal cooperation. Interviewees expressed positive opinions about the partnership projects as a means to achieve an improved impact of the project and address problems that could not have been solved by individual actors, which indicates that the practices achieved a certain amount of internalization within Poland. To further point toward this internalization happening in Poland, the study

notes that a number of inter-communal cooperation, which were initiated for the purpose of the joint application for EU funding, continued beyond the project, indicating 'thick' learning and Europeanization. In the Czech Republic and Hungary, project partnerships were not seen often before the partnership principle was promoted toward the end of the 2007-2013 programming period, and remain scarce. The micro-regions showed only limited cooperation between municipalities prior to the implementation of Cohesion Policy. If cooperation could be observed it was out of the necessity to pool resources due to the weakness of these regions and dependency on the central government. In regard to the regions within the Czech Republic and Hungary, the competition between the municipalities to attract funding from Cohesion Policy appears to be the biggest hindrance for forming cooperative relationships and projects. This is followed by a lack of trust and a 'lack of understanding of partnership' which renders cooperation rather difficult ( Dabrowski, 2013:13). Within the first aspect of horizontal cooperation it is concluded that interactions in consultations contributed to mutual understanding and allowed for the fostering of relationships based on trust, a precondition for efficient operation of cooperative governance arrangements. Partnership in regional operation program-formulation involved a learning curve and was facilitated by the strong interpersonal relationships between local and regional officials built up over the years. However, there remain problems. The motivation to attain funds appeared to still be the strongest motivator for participating in partnerships, leading me to think that while the partnerships have the desired effects by drawing on local knowledge, creating stable long-term relationship, and enhance localized learning with EU facilitated external information and knowledge exchange, this does not necessarily lead to 'deep change' and Europeanization. A move away from 'shallow' Europeanization will probably take more time. New local elites, who have internalized the partnerships as something appropriate and desirable for the self-sustaining development of their regions, need to replace the old elites. A binding partnership regulation, and an extensive program for facilitating these partnerships by the European Commission, is expected to have a strong impact on the internalization of the partnerships and their perception by the local actors as desirable and



conductive to self-sustaining regional development, created by the place-based approach to regional development. Partnership in implementation and monitoring of Cohesion Policy remains weak across the board. In Hungary it was remained nothing more than a mere formality. The dominance of an established local elite, made up by members of the local government authorities, hindered the involvement of local actors from the economic or social sphere. This led to actors becoming increasingly de-motivated and resulted in a sharp fall in attendance at meetings, since the local actors felt that their voices were not being heard. The framework for ensuring the continued involvement of local actors coming from all spheres, as laid out in the code of conduct of partnerships by the European Commission, will ensure that the local actors' voices will be heard and thereby create motivation for these actors to stay actively involved. Evidence of 'thick' learning and Europeanization taking place in the Polish region in regard to project partnerships is underlined by the statements of interviewees saying that the participation in partnerships fostered relationships based on trust, favoring further cooperation within and beyond the framework of Cohesion Policy. A combination of a relatively large size of municipalities with active regional authorities promoting partnerships in projects allowed the Polish region to overcome its reluctance toward inter-municipal collaboration and generated spill-over effects. Project-partnerships in the Czech and Hungarian regions, if they do take place at all, remain opportunistic and driven by interest. They do not achieve any significant spill-over effects. There appear to be no clear incentives for partnership projects, on the contrary, the strong competition to attract funding between the municipalities actively discourages the formation of partnerships and partnership projects. However, within both regions there are isolated examples for EU-funded partnership projects, which are based on pre-existing cooperation within micro-regions and well defined common aims do exist within these areas. All in all, it can be concluded that in the context of the third aspect to horizontal cooperation within the Czech and Hungarian regions a 'shallow' Europeanization is taking place. The findings regarding 'shallow' Europeanization and 'deep' change, the former is also called 'thin' learning and the later is called 'thick' learning are summarized in the table below. The study represents the state

of partnership implementation of the last years of the programming period of 2007-2013 and while a bleak outlook is presented within the table, I conclude that with the provisions made to the previous Cohesion Policy, that successful partnerships within these regions can be achieved.

<b>Aspects of Horizontal Cooperation</b>	<b>Polish Region</b>	<b>Czech Region</b>	<b>Hungarian Region</b>
Partnership in Programming	Ambiguous	Ambiguous	Ambiguous
Partnership in Implementation and Monitoring	Shallow	Shallow	Shallow
Partnership in project level	Deep	Shallow	Shallow

The revision of the Cohesion Policy , the introduction of the partnership principle and the binding code of conduct of these partnerships provided by the European Commission, will be beneficial for the establishment of cooperation. The building of trust and a cooperative memory will not happen over night, however, the provisions by the Union will help mitigate fears of cheating between actors and the facilitation of external and internal flows of knowledge and innovation will help actors realize the benefits of project partnerships for self-sustaining regional development. An increase in common bonds will enhance solidarity which is necessary for the sustainability of the European Union. The analysis shows the complex patters of adjustment to the partnership principle, which varies not only across regions, but also across different aspects of partnership implemented in a given region and across the individual actors within a region (Dabrowski, 2013). It is concluded that although ‘shallow’ Europeanization does still persist and in certain areas is more common than ‘thick’ learning leading to Europeanization, that the view of partnership principle was considered appropriate and beneficial by regional officials, leading to the assumption that the partnership principle can take root, especially considering the binding regulation by the European Commission. In order to fully implement successful partnerships, the place-based approach to regional

development is needed. By exploiting their territorial capital, individual regions can create competitive advantage; however, this is only possible if local actors, coming from different sectors such as local authorities, economic and social actors, are included into the process of horizontal cooperation formation.

## 7. Conclusions

One of the major problems is the presence of contradictive definitions by member states and other actors of what ‘kind’ of cohesion should be promoted by Cohesion Policy. One of the two divergent conceptions of convergence created by Cohesion Policy concerns itself with increasing efficiency and overall economic growth within the Union. The other one is concerned with solidarity and spatial justice and a decrease in disparities among regions. These two approaches stand in obvious conflict with each other, especially when Cohesion Policy is used as *one* Union-wide uniformly applicable regional development policy. Regional- and local actors need to be involved in the process of Cohesion Policy programming in order to mitigate imperfect information about a specific location at the level of the European institutions, resulting inappropriate policies. This moves away from the notion of having *one* regional development policy funded by cohesion policy which will then be applied to the entirety of the European Union, toward a focus on individual regions and enabling them to create individual policy solutions for these regions. Considering the variances of social, cultural, political, legal, educational, and economic institutions and practices existing in the European Union, it appears to be puzzling why one would try to create one policy for enhancing growth and innovation and then thinking it to be applicable in every region to the same effect. If only core-drafted policies for regional development and innovation are employed, the increase in disparities is a quite foreseeable consequence. Within the concepts of a bridging between efficiency- and solidarity-based definitions, namely through territorial capital, a clarification of what cohesion stands for can be achieved. Cohesion Policy should focus on different territories’ untapped development potential, strengthening regional

connectivity and integration, and promoting coherence of existing European Union and national policies with a regional impact. Development is to be promoted in all regions by exploiting their territorial capital, in other words 'localized assets- natural, human, artificial, organizational, relational, and cognitive – that constitute the competitive potential of a given territory'. (Camagni and Capello, 2010:10) Natural occurring convergence of GDP per capita or per capita income will not be hindered, since a successful reduction of underutilization of regional capacities in lagging regions can take place at the same time as prosperous agglomerations continue to grow faster. The strengthening of safe-guards to protect against crowding-out and rent-seeking will further create incentives to increase mutually cooperative relations regarding development and the focus on specific regions with its provision of involvement of different local actors from both public, private sectors and civil society, will enhance individual actor's motivations to focus on creating specific local advantages. This has been introduced as 'thick' learning which denotes the internalization of Union-policies and practices by the domestic actors who consider them to be applicable and appropriate to foster development within their local region, with which they identify themselves. The old 'ways of doing things', including the notion of 'shallow' Europeanization in which the actors are employing the 'concept of listening to foreigners' in order to attract the highest amount of funding possible, are slowly transformed and the actors change their preferences, as shown in the empirical analysis. This way a region can try to discover and create its own competitive advantage. Coming to the first research question, it is concluded that by moving away from *one* regional policy encompassing the entire Union which can be exploited by ruthless actors on the national level trying to further their own agendas, toward a place-based approach, the argument of Cohesion Policy running counter to economic growth overall has been mostly side stepped. The remaining question here will have to be how many of the regional approaches to development will in the end be successful, however, since we are at the star of the 2014-2020 programming period this will only be revealed during the course of the next seven years.

Question 1	Can conflicts with “natural occurring”- convergence (Efficiency vs. Equity) created by the application of Cohesion Policy be reduced by utilizing a Place-based approach employing Territorial Capital to regional development?	yes
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The literature review covered extensively a number of areas in which a place-based approach could benefit the drafting of regional policy within the European Union. The strengthening of the principle of subsidiarity, with the introduction of the Lisbon Treaty, points toward a local approach having certain advantages over a spatially neutral approach. The Union only gets involved in matters in which it can achieve better results than could be achieved on the national or regional level; however, it still plays the role of a facilitator and knowledge enabler, even if the drafting of regional policy has been left to the individual regions. There are certain overlapping areas to the first research question, for instance in regard to the problem of ‘shallow’ Europeanization within regions which was created and facilitated by lack of cooperative culture, past centralization of governance, statism and silo-mentality of administration. The place-based approach promotes the inclusion of a wide array of local actors, many of which will have strong local identities and therefore feel inclined to make the most out of the opportunity to develop their region. Spatially blind approaches appear to neglect such ideational and emotional connections linked to a location which can be utilized to enhance regional growth potential. As mentioned by Servillo et al., (2011), socio-cultural aspects are of great importance when it comes to the drafting of development policies. Regions are divided up with richer regions belonging to one convergence club and poorer regions belonging to the low convergence club. When stuck in such a situation a region can benefit from a ‘big push’ helping it out of the low-level equilibrium trap however; this can only happen, when the regionally appropriate developmental and technology policies are implemented. The drafting of policies such as this, is dependent on detailed knowledge and involvement of local actors in possession of information about local industries, addressing the local and innovative milieu of a region. A spatially neutral

approach, generally favoring the already established centers in the more prosperous regions will not be sufficient to address a low convergence club region's developmental needs. Further a place-based approach is capable of supporting the European Union's sustainability. The lessening of elitism in EU interventions and less invasive interfering with national and local practices is a way to decrease nationalistic trends within member states. The strengthening of a common bond in the drafting of European regional Policy will enhance the sustainability of the Union. I also drew on Porter's diamond model which, among other factors, includes for instance *factor conditions* which are stated to be of greatest importance, since they are created within the nation, or region, itself through a process that differs widely across nations and among industries. Regions therefore will be competitive where they possess unusually high quality institutional mechanisms for specialized factor creation. This includes the level of skills and knowledge of the country's population and the provision of sophisticated physical infrastructure, including transport and communications. The place-based approach employed by the European Union is needed in order to identify in which sectors a region might be able to build up a competitive advantage. European Cohesion Policy must respond to the institutional, legal, geographical, and political heterogeneity present in Europe. To focus on encouraging the growth of the biggest urban centers and existing agglomerations in the diverse landscape of the EU is not sufficient. Local and regional institutions need to utilize local knowledge and actors to find pathways for development.

Question 2	Application of a spatially neutral approach or place-based approach: Is a Place-based approach more suitable to the multi-country and multi-regional entity of the European Union?	yes
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One of the main points of this paper is a focus on the impact of knowledge, learning, and innovation in policy interventions. Underdevelopment traps that limit the growth potential of regions or perpetuate social exclusion are the result of failures of local elites to act as shown in the empirical study in the section on partnership in implementation and monitoring of Cohesion Policy, and can only be tackled by new knowledge and ideas: the

purpose of development policy is to promote the development of regions through the interaction of those local groups and the external elites involved in the policy. Technology policy within the European Union during the programming period of 2007-2013 has mainly been drafted by core member states and prosperous core regions. Within the EU there is a focus on policies promoting high tech and EU best practices which Liagouras (2006) attributes to the Union ascribing to the dominant theoretical framework on technology and innovation, which underestimates the importance of business organization and broader economic structures within peripheral regions. These policies have proven to be inappropriate for the peripheral countries and regions because they do not properly accommodate their growth models and their corresponding production structures. The Cohesion countries were required to follow objectives that mainly reflect the interest of research institutions and firms established in the prosperous regions. The problem associated with this is that policy preoccupations and theoretical concepts produced in and for leading economies have little to do with the specific needs of peripheral countries and regions. The need for a place-based approach is again emphasized. The region's specific needs in regard to their geographical location and relating development issues, industrial bases and sectorial focus, for instance tourism sector, has to be taken into account when devising technology policies aimed at promoting growth. In order to do so, it is necessary to accumulate localized knowledge of what regional policy should be addressing in the specific situation. This includes all forms of learning, information and its exchange, technology, and innovation. Learning is necessary for innovation and depends on the accumulation and development of relevant knowledge. There is an emphasis on 'local' since the creation and diffusion of knowledge depends on local actors. Geographical distance strongly impacts on the sharing of knowledge and information between local actors and the formation of information links. The occurrence of specific local problems leads to innovation processes of 'learning by doing' and 'learning by using' leading to a close connection of the 'local' to the innovation process. There further exists a need of extra-local linkages in order to mitigate the dangers of local networks that could result in a lock-in. A connection with externals,

integrating for instance firms with suppliers, customers, sources of specific information and knowledge, etc., needs to be established. The Union institutions can play the part of knowledge-enablers and external actors who are able to establish and facilitate connections between otherwise remote networks. This connection is possible and can be strengthened by the partnership principle. Cohesion policy intervention within a specific region will be based on partnerships between different levels of governance, both as a means of institution-building and also of identifying and building on local knowledge. While policies aimed at enhancing growth need to be tailored to the geographically specific needs of regions in order to tap underutilized potential of growth, the knowledge regarding regional development created by the policy leading to the enhancement of growth is not restricted to geography, but can draw on experiences of external actors and factors as well as spillovers to external or adjacent regions. The region's specific knowledge can be uncovered by a focus of Cohesion Policy on the location in question, making the accumulation of the regionally specific knowledge regarding approaches to regional development possible even in desolate regions. The initial concentration on a specific region and its struggle to identify and implement the best strategies for its unique position can facilitate the emergence of competitive advantages within these regions. If the learning-process created by the place-based approach and notion of territorial capital leads to innovation, such regions could, through engaging in partnerships and through inter-linkages running through the entire Union, help diffuse knowledge and ideas, if other local actors or circumstances there find them applicable. This can be achieved with the creation of linkages and information networks aided by the European institutions. It is not the geography that provides the advantage for these regions; it is the active focus of the enhanced EU policy that creates the necessary focus and motivation to actively create this regional and therefore also geographical advantage through the utilization of local elites, values, norms, information, etc. In conclusion: location matters for a variety of reasons; within the EU peripheral regions it matters since it provides the starting- and focusing point of the creation of local advantages aided by external and internal actors and knowledge that might otherwise not be addressed. Gertler's (2002) knowledge-



enabler concept states that while the production of tacit knowledge remains strongly localized, the possibilities for the dissemination- once produced- create large spread effects within multi-divisional and multi-locational organizations. There is also at least the potential for wider diffusion of this knowledge outside the organization, if the appropriate enablers are in place. The EU institutions and affiliates have the capability to act as knowledge enablers

Question 3	Can theories on technological change, knowledge creation, and learning be utilized to explain why a Place-based approach and Partnership Principle, backed by the European Commission, is needed to enhance regional development?	yes
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#### ➤ 7.1. Concluding remarks

This research aims at lessening the existing literatures limitations by crosscutting across a number of academic fields, in order to emphasis the importance of the ‘local’ when devising European Union regional policy. Cohesion Policy needs to address the individual needs of specific regions. In order to enhance, or create, development in regions lagging behind, Cohesion Policy needs to be viewed from an interdisciplinary point of view to limit the negative and unintended effects of a Union-wide uniformly applicable policy. An important issue remains to be addressed. How to measure the impact of Cohesion Policy based on a place-based approach?

Usually the gap between GDP per capita and per capita income is used in order to quantify regional developmental disparities. The existence of varying definitions of convergence to be addressed by cohesion policy seems to have led to the misconceptions in this aspect. The most important of which is that convergence of per capita income or GDP per capita among the regions is the main objective of place-based approach or of Cohesion Policy and that these measures are capable of showing the aim of the approach.

When convergence is used as a target against which the success of policy is measured then it is assumed that all regions have the same potentials for development. However, as it is pointed out by Barca (2009), that convergence is neither a necessary nor a sufficient precondition for regional policy success in pursuing either the efficiency or social inclusion objective. Creation of convergence of GDP per capita or per capita income is not a necessary condition for increasing efficiency. For example, a successful reduction of underutilization of regional capacities in lagging regions can take place at the same time as prosperous agglomerations grow faster and disparities between the core and the periphery widen, according to the increase of the gap in GDP per capita. In this case, while the lagging region's needs are successfully addressed and growth is enhanced it will appear as if the regional policy has not been successful, when indeed it was. Since we are at the beginning of the new programming period it appears to be useful to devise an impact evaluation model and analyze the outcomes, once they become available.

➤ 7.2. Suggestions for future research

I argue that the current situation within Europe characterized by austerity and the flaring up of Euro-skepticism in connection to it can be potentially harmful to the sustainability of the European Union. A place-based approach to regional development can connect the uncovering of regional development potential to the formation of common bonds, partnerships between internal and external actors, and at the same time address the formation of a European identity. The impact of Cohesion Policy on the formation of such identities due to the viewing of Cohesion Policy as an adequate instrument to regional development should be examined. A limitation of this paper is evident, since the programming period has only started and there are no outcomes of this new Cohesion Policy published yet, that could be compared with the previous periods. Therefore it is necessary to closely monitor future developments within the regions. It is very likely that the new approach will lead to success in some regions, while other will not

be as successful. The reasons for variations in future development need to be scrutinized to enable a refinement of Cohesion Policy based on the place-based approach.



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## 초록

이번 연구의 목적은 유럽연합 결속정책이 유럽에 미친 영향을 설명하는 데 있다. 지역불균형과 결속정책이 유럽에 미친 영향을 분석한 결과, 이 정책의 초기목적인 지역융합과는 어울리지 않게, 현재 유럽 지역별 개발수준 차이가 심화되는 추세다. 특히 이미 뒤쳐진 지역의 경우는 다른 지역의 개발수준을 따라잡기가 더 어렵다. 그리고 이런 이유로 유럽의 중심부와 주변부간 개발수준 격차는 점점 더 커진다. 결속정책이 지역개발에 덜 긍정적이거나 심지어는 부정적인 영향을 미치는 이유, 특히 유럽연합 신규회원국에서 그런 경향이 두드러지는 이유에 관해 논의했다. 유럽 중심부와 주변부의 개발수준 격차 심화 현상을 설명하고, 결속정책에 포함된 장소기반접근법과 파트너십 원칙의 중요성을 강조하고자 집적변화이론, 지식변화이론, 정보변화이론, 기술변화이론을 적용했다. 이를 토대로 유럽에서 아직까지 충분히 활용되지는 않았지만, 국한된 잠재력이 있는 지역의 개발가능성을 타진해보고자 한다. 결속정책에 포함된 장소기반접근법은 특정지역의 특성에 맞춘, 좀 더 장기적이고 지속 가능한 발전을 돕는 매개요인으로서 등장했다. 이 접근법은 내생적 개발지원, 자본과 기업 유치, 그리고 해당지역이 경쟁우위를 만들도록 지원하는 데 초점을 둔다.

핵심어: 결속정책, 장소기반 접근, 영토자원, 파트너십 원칙, 지역혁신체제  
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